Notice on Submission of Internal Control Report
Including Material Weakness in Financial Reporting Requiring Disclosure

TOKYO—Toshiba Corporation (TOKYO: 6502) (the “Company”) gave notice in its May 23, 2016 “Notice on Material Weakness in Internal Controls on Financial Reporting Requiring Disclosure”, that the Company had determined that there remained material weaknesses in its internal controls that required disclosure, and expressed its intent to make such disclosure in its Internal Control Report to the Director-General of the Kanto Local Finance Bureau.

The Company hereby gives notice that, today, in accordance with Article 24-4-4, Paragraph 1 of the Financial Instruments and Exchange Act, it has submitted the report. The key contents have not changed from those previously released on May 23, and are as follows

I. Improvement measures already made


The need for submission of amended reports stemmed from a number of factors: in a harsh business environment, there was pressure from consecutive presidents to achieve targets, with an overriding emphasis on current profit; a lack of awareness of appropriate accounting controls on the part of presidents and executive officers caused a failure in internal controls over the finance division, and in the issue of consolidated and non-consolidated financial results at both the corporate and in-house company levels; and the supervisory function for the president and executive officers did not work sufficiently.

Following the correction of financial results, the Company was informed by the Tokyo Stock Exchange (“TSE”) that the Company had serious problems in its internal control systems, that improvement of its internal controls systems was essential, and that TSE would designate the shares of the Company as “Securities on Alert” effective from September 15, 2015. The Nagoya Stock Exchange (“NSE”) concurred in this decision.

The Company takes very seriously the designation of its shares as “Securities on Alert”, a measure proportional to delisting, and has implemented the following improvement measures in order to rectify the material weaknesses in internal control.
1. Strengthening supervision of top management
(1) Composition of the Board of Directors
   i. Majority the Board composed of outside directors
   ii. Reinforced supervisory function (establishment of Executive Session, etc.)

(2) Enhancing the structure and function of the Nomination Committee
   i. Committee composed only of independent outside directors
   ii. Clarified the criteria for the selection of the President & CEO

(3) Composition of the Audit Committee and enhancing supervision function of the same
   i. Committee composed only of independent outside directors
   ii. Internal Audit Division placed under direct control of the Audit Committee
   iii. Establishment of whistleblower system to the Audit Committee

2. Strengthening internal control function
(1) Review of budgetary control
   i. Clarification of budgetary policy based on business profitability and growth
   ii. Budget planning process and performance evaluation with emphasis on cash flow plan and its feasibility

(2) Strengthened checks and balances by the Corporate CFO and Finance and Accounting Division
   i. Setting the Nomination Committee’s right to concur to appointment and dismissal of the Corporate CFO
   ii. Separation of the Corporate Finance and Accounting Division into financial accounting and management accounting
   iii. Restructuring of in-house company accounting department (placed under direct control of the Corporate Financial and Accounting Division)

(3) Business process reform
   i. Accounting in relation to the percentage-of-completion method, etc.

(4) Enhanced the internal control report system
   i. Increased the number of personnel engaged in promoting internal control reporting systems; education to personnel conducting internal control reporting

(5) Enhanced whistleblower system
   Company-wide notification of the system and strict protection of anonymity.

(6) Establishment of the Accounting Compliance Committee
   i. Early detection of risk factors, planning and instruction on the countermeasures for the appropriate financial reporting

3. Improving awareness of management and employees
(1) Improved awareness of management
   i. Conducted awareness improvement seminars devoted for top management

(2) Improved awareness of employees
   i. Conducted education on accounting compliance, by rank and function
II. Status as of March 2016

The Company is fully aware of the importance of internal controls over financial reporting. In order to rectify material weaknesses in internal controls over financial reporting that were identified in the last fiscal year, the Company has established and has been implementing the improvement measures indicated above. However, the implementation status for some improvement measures could not be verified at the end of last fiscal year, because it was not possible to secure a sufficient implementation period.

As a result of this, despite progress in improvement through the above improvement measures by the end of the last fiscal year, the Company was unable to sufficiently confirm whether or not rectification was completely established in respect of following areas of weakness in company-level internal controls:

- Strong pressure from top management to achieve budget targets
- Corporate culture where employees cannot go against the will of their superiors
- Lack of awareness and knowledge among management about appropriate accounting treatment
- Ineffectiveness of internal controls at the corporate level and within each in-house company
- Lack of proper implementation of appropriate accounting standards

In response to weakness of the company-level internal controls, the Company changed the budget preparation process to a reality-based process with a long-term perspective, with emphasis on cash flow, and drew up a budget for the fiscal year 2016 considering feasibility. However, with respect to the fiscal year 2015, due to the effect by the restatement of results for previous fiscal years, and because of a closer focus on examining actual results of figures of financial reporting, that fiscal year was closed without preparation of substantial budget. Therefore, the Company was not able to verify implementation status, including indication of awareness of compliance.

In respect of awareness of appropriate accounting reporting on the part of employees engaged in financial reporting, the Company conducted education on accounting compliance by rank and function, and has found improved awareness as of the end of March 2016. However, the Company was unable to secure a sufficient implementation period for confirming that the degree of improvement is completely sufficient. Regarding this, the Company has determined that additional verification is necessary at future quarterly closings in addition to the closing of the financial year 2016 results.

In respect of improvement measures for material weakness in internal controls over disclosure in connection with the financial closing and reporting process, despite measures that produced overall progress at the end of March 2016, the Company determined that there is a material weakness requiring disclosure in establishment and implementation of internal control over financial reporting process, because certain restatement items in regard to financial reporting were discovered in the course of the audit of financial statements for the fiscal year 2015. The reason for not being able to rectify the weakness by the end of the fiscal year comes from that fact that weakness were discovered in the course of year-end audit.
The Company has already made appropriate restatements for the necessary restatement items arising from the aforesaid material weakness requiring disclosure.

In order to verify the remediation of material weakness in company-level internal controls requiring disclosure, the Company will endeavor to improve implementation of the budget control system; to firmly establish awareness of proper financial reporting among employees working on financial closing and reporting; and to implement improvement measures for material weaknesses in internal controls requiring disclosure in connection with the financial closing and reporting process, and will also verify the status of future quarterly financial closings.

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