Aug 10, 2017
Toshiba Corporation

Notice on Adverse Opinion on Internal Control Audit Report over Financial Reporting

TOKYO— Toshiba Corporation (TOKYO: 6502) (the "Company") today submitted its Internal Control Report to the Kanto Local Finance Bureau. The report details the Management's evaluation of its internal control over financial reporting for FY2016 and the Company's Management (the "Management") concluded that the Company maintained effective internal control over financial reporting. However, the Company hereby announces that it has received an Adverse Opinion on the report from its independent auditor, in respect of the audit of the Company's internal control over financial reporting for FY2016.

1. Specifics of the Internal Control Report

The contents of the Internal Control Report on the Annual Securities Report for FY2016 cover the following.

i. Evaluation Scope

The Management determined the scope of evaluation on the internal control over financial reporting, in accordance with the standards for assessment of internal control over financial reporting generally accepted in Japan, having regard to the monetary and qualitative impact which the control will have on the reliability of the financial reporting of the Company as well as its consolidated subsidiaries and affiliated companies accounted for by the equity-method.

The scope of evaluation included the internal control over reassessment of provisional estimate on loss on contract liability related to the purchase price allocation procedures of CB&I Stone & Webster ("S&W"), acquired by Westinghouse Electric Company LLC ("Westinghouse") on December 31, 2015. And it also included the internal control over an assessment of its reasonableness in the timing of recognition of loss on contract liability.

Also, Westinghouse, Westinghouse's U.S. affiliates, and Toshiba Nuclear Energy Holdings (UK) Limited (TNEH (UK)), a holding company for Westinghouse Group operating companies outside the U.S. (collectively, the "Westinghouse Group"), filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code with the U.S. Bankruptcy Court of New York on March 29, 2017 (US time). As Westinghouse Group has commenced the rehabilitation proceedings, it was deconsolidated from Toshiba Group.

However, the loss incurred by the deconsolidation was deemed to have a material impact on the Company's consolidated financial results for FY2016. As a result, the internal controls over the recognition of profit and loss related to the deconsolidation, as part of the Company's closing of accounts and financial reporting processes on the consolidated financial statements, were also included in the evaluation of internal control over financial reporting. Now that Westinghouse Group is deconsolidated from the Company and its consolidated subsidiaries (hereinafter the "Group"), the internal controls of Westinghouse Group are excluded from the evaluation of internal controls of the Group for FY2016.

ii. Evaluation Results

As a result of the evaluation of internal control over financial reporting as of March 31, 2017, the end of FY2016, the Management determined that the Group's internal control over financial reporting were effective.

The Management found material weakness in the internal control over financial reporting at the end of FY2015. Therefore, the Management reviewed remedial action taken in respect of material weakness on operation status of the budgetary control system, in relation to which the Management had not been able to confirm correction as of the end of FY2015 due to its then short-term operation, and the Management confirmed that material weakness had been fixed. The Management also confirmed that employees, engaged in closing accounts and financial reporting, are aware of the necessity of proper financial reporting, in relation to which the Management also had not been able to confirm correction as of the end of FY 2015 due to its then short-term operation.

In addition, since many items requiring adjustment were discovered in the course of the audit of financial statements in FY2015, the Management verified that improvements had been made in the closing of accounts and financial reporting process for every quarterly closing process through continual evaluation during FY2016. As a result of this evaluation, the Management determined that material weaknesses had been discovered in FY2015 were remediated by the end of FY2016, and further determined that the Group's internal control over financial reporting were effective.

2. Name of the independent auditor
   PricewaterhouseCoopers Aarata LLC (the "Auditor")

3. Date on which the Company received the Internal Control Audit Report
   August 10, 2017

4. Specifics of the Internal Control Audit Report

An extract of the Internal Control Audit Report received from the Auditor is set out below.

> "*Accounting Standards Codification (ASC) 805 requires that the identifiable assets and liabilities are to be recognized and recorded with using provisional estimates at end of the reporting period, if such reporting period ends before fair value measurement is completed. ASC805 allows for up to one year from the acquisition date to finalize such fair value determinations and to allocate purchase price (hereafter "purchase price allocation procedures"). As a result of finalizing purchase price allocation procedures of S&W on December 31, 2016, the Company recorded JPY 652,267 million related to loss on certain construction contracts, and accordingly, the Company reassessed the provisional estimate made for loss on contract liability in Current liabilities of discontinued operations in the consolidated balance sheet as at March 31, 2016 as a comparative figure. However, when the Company reassessed the provisional estimate of the loss on contract liability, the Company failed to reassess appropriately using reasonable assumptions based on all of the information available as at the prior-period closing. This resulted in a loss of JPY 652,267 million related to a specific contract recorded in the loss from discontinued operations, before non-controlling interest (net of taxes) in the Consolidated Statement of Operations for the current year. However, a substantial portion or all of these losses should have been recorded in the previous fiscal year. Therefore, the material misstatements described in the "Basis for Qualified Opinion" section in the "Financial Statements Audit" exists in the consolidated financial statements for the current fiscal year.*
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> *As a result, we concluded that deficiencies in internal control exist in the process of preparing the consolidated financial statements of the current fiscal year, because the internal control for reassessment on provisional estimate of contract loss liability related to the purchase price allocation procedures of S&W, which was also for assessing the timing of such loss, did not operate properly.*"

5. The Company's future actions

The Management found material weakness in the internal control over financial reporting at the end of FY2015. Therefore, the Management reviewed remedial action taken in respect of material weakness on the operation status of the budgetary control system, in relation to which the Management had not been able to confirm correction as of the end of FY 2015 due to its then short-term operation, and the Management confirmed that material weakness had been fixed. The Management also confirmed that employees, engaged in the closing of accounts and financial reporting process, are aware of the necessity of proper financial reporting, in relation to which the Management also had not been able to confirm correction as of the end of FY 2015 due to its then short-term operation. Also, the Management verified improvements of closing accounts and financial reporting process in every quarterly closing process through continual evaluation during FY2016.

As for the operation status of budgetary control system, the Management confirmed that feasible and reasonable budget had been compiled and that there were no irrationally aggressive requests for improvement of profit or for achievement of budgetary target of profit. As a result, the Management concluded that there is no material weakness on the operation status of the budgetary control system.

The Management also confirmed that effective internal checking system for appropriate accounting was working properly and that appropriate guidance through briefings and manual documents had been established and were being provided properly, which are necessary for the proper closing of accounts and financial reporting at every site/location. As a result, the Management concluded that there is no material weakness related to employees' awareness of the necessity of proper financial reporting, who are engaged in the closing of accounts and financial reporting process.

In addition, since many items requiring adjustment were discovered in the course of the audit of the financial statements in FY2015, the Management verified that improvements had been made in the closing of accounts and financial reporting process in every quarterly closing process through continual evaluation during FY2016. As a result of this evaluation, the Management determined that material weaknesses had been discovered in FY2015 were remediated by the end of FY2016.

In conclusion, the Management confirmed that all corrective actions for material weaknesses as of the end of FY 2015 had been implemented and concluded that the Company maintained effective internal control over financial reporting as of the end of FY2016.

In the Internal Control Audit Report, the Auditor provided their "Basis for Adverse Opinion" by stating that "*we concluded that deficiencies in internal control exist in the process of preparing the consolidated financial statements of the current fiscal year, because the internal control for reassessment of provisional estimate of contract loss liability related to the purchase price allocation procedures of S&W, which was also for assessing the timing of the contract loss liability, did not operate properly*." However, the Auditor has not pointed out any other material weakness except for the accounting treatment related to Westinghouse Group.

The process pointed out as a deficiency was a non-recurring internal control issue related to S&W's acquisition by Westinghouse, and the process for appropriate recognition of profit and loss related to the deconsolidation of Westinghouse Group. As Westinghouse Group filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code and has become a discontinued operation, this internal control will not be included in the scope of evaluation of internal control over financial reporting in the future.

The Company is well aware of the importance of implementing and operating internal control over financial reporting, and will seek to further improve and strengthen its internal control by executing appropriate and timely measures.

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