

Disclaimer:

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## **Toshiba Corporation – Group Meeting of the outside director and shareholders Q&A Session**

### **Domestic Investor A:**

(Translation)

You have been renewed the organization, reviving the organization. I think it has been a wonderful endeavor. But, from the governance perspective, what are some of the ideas you have in mind to really make it functional and operational? For instance, last year, the Board of Directors have been held 37 times. But under a normalized situation, perhaps that number would decline going forward. So it is important, under such a normal situation, to well understand the undertakings of the company to monitor Executives' operations. In addition, I believe you do have standards for the appointment of the candidates for directors, but how can you judge that that person is indeed appropriate for that position? If you only reconfirm the candidates recommended by staffs, it will be meaningless. So, in order to ensure more of a functional organization, if you have any ideas in mind, please share those with us.

### **Yoshimitsu Kobayashi:**

(Translation)

Back in 2003, Toshiba has moved into the Company with Committees system and has been quite advanced in incorporating some of the western mechanism ahead of their peers. However, as a result, the internal officers took main roles in the Nomination Committees and also the Audit Committees. Regretted what has happened, we reformed the 3 Committees with all outside directors. For instance, the appointments by the Nomination Committee was no longer influenced by the internal staffs. In fact, the outside directors have been the predominant force in making decisions. Go going forward, of course we need to incorporate the staff information and discussion needs to be conducted. Back in 2015 fall onwards, the company has gone through almost three years rather. So it is about time that we will see some reshuffling of the directors of the board. Five person are in the Nomination Committee. All are outside directors. So of course, we will need to understand some of the recommendation by staff, internal employees. But generally speaking, the outside directors need to mainly discuss with potential candidates and spend certain time to understand them.

Of course, experts on accounting and auditing, experts on the legal and academia are required within the Committees. But we also need to have the business experience. For instance, persons who have experience in multiple industries, or persons who served as top management in those companies, might be candidates. Diversity is also an important factor. Female, currently two in ours, and non-Japanese national or persons engaged in global business for a long time, those would have to be taken into account. And that is the direction we have in mind.

Within the rules of the Nomination Committee, we do look into the quality for directors and personality character. Aside from that, diversity is definitely one idea we need to incorporate more so than before. Also business experience is essential. In addition to that, of course, knowledge of accounting, legal, especially on compliance, those would also be necessary. So those would be the standards in which we will be making the nomination. Now we have 22 business units, so if directors are required to be professionals to each businesses, more than 10 of directors would be necessary. So we just need to focus on the major points. So I believe 37-times-Board of Directors meetings have been somewhat at the too large a number, so perhaps one or two times a month would be more of a feasible option. So hopefully, we can migrate to that system at the earliest as possible. Beside the meetings of Board of Directors, Toshiba holds the meetings of Board of Directors Council. There detailed discussions are taking place as the first phase and the final resolution is conducted at the board meetings as the second phase. So, of course at the stage of the Board of Directors Council we can have more in depth information about the operation and if you have any questions, you can raise them to the staff. So after a couple days or so, you can hold the meeting of the Board of Directors to have more in-depth discussion. As an auditing and monitoring body, the major business items, such as the basic plan of "Toshiba Next Plan", portfolio management, compliance and brand recognition, would be deliberately monitored. That is the plan right now.

**Domestic Investor B:**

(Translation)

First, in September 2015, you became the outside director and at that time Toshiba faced a lot of difficulties. Why did you accept this outside director position? I suppose that you felt there was a particular mission for you at that time. Do you think that you have achieved that mission? Or is it different from what you expected? That's my first question.

And also in your answer to the previous question, the outside directors are playing a major role, but depending on how you look at it, it seems that the outside directors are making

most of the important decisions. For example, the Audit Committee probably should know their first line of the business more, however, only one of the person has the full time mission in the Audit Committee. I heard that there is the Audit Committee Office to support the Audit Committee, but if I look at the number of the meetings of the Board of Directors, I'm wondering how many times they had the Audit Committee meetings in a year and how frequently they are visiting the overseas subsidiaries for on-site audit. So now maybe there is some doubts about whether those committees are playing its own roles as expected. The company with a Nomination Committee, etc. probably should not hold the meetings of the Board of Directors so frequently because it is a monitoring board. In the case of United States, for example, six or seven times in a year is the norm. So what is the comparison there? And still there are special advisers and honorary advisers. There are three of them actually. Have you already realized that could change the kind of mindset?

For the future succession plan, I am sure you have certain plans in the future. Do the outside directors also play a major role in this succession plan and fostering the future leaders, or does internal staff lead the plan? You mentioned that the communicating the views of the stakeholders to the Board of Directors. The employees of Toshiba are also stakeholders, and I heard from my personal relationships that those employees remaining still have a kind of a negative view right now.

So in order for them to become more positive about the future so that they can become sustainable growth. How do you plan to strike a good balance among the current stakeholders and also the employees' view about the future?

**Yoshimitsu Kobayashi:**

(Translation)

First of all, since the fall of 2015, it has been more than three years actually. At that time, accounting issue occurred and in July, the Management Revitalization Committee was set up. And I was asked to become one of the members of that committee. Mr. Nishimuro and Professor Itami, who was the outside director and the expert of the business administration came, and I was asked to become one of the members at which we did kind of audit or investigation about once a month or twice a month at most. At that time, it was accounting issue, it seemed very complex and difficult, and I said no to that. But I was still asked to utilize my experiences as a management executive and join this committee. So I became one of the members.

After some time, I was asked to become the outside director from September, as I must have started to understand more about Toshiba. Mr. Nishimuro came over to my company

and he pleaded me to become the outside director. I come from Yamanashi prefecture, and Mr. Nishimuro was also from there. Once a month or once every two months, we had a gathering of those people who come from Yamanashi Prefecture, so I had opportunity to hear from Mr. Nishimuro. At the time I graduated from the university, talented people, especially in the area of the physics, applied chemistry and applied physics so forth, most of them went to Hitachi or Toshiba. I joined a chemical company, but I think that Toshiba is really the source of Japanese technologies and at a very high level of the technologies, and has a series of treasure of a lot of technologies just as Hitachi also plays an important role. So I thought that clearly it will be a loss for Japan if Toshiba collapsed due to compliance related problems such as accounting issue. There were so many different leading edge technologies held by Toshiba including semiconductor, medical, optical disc, and so on. So, Toshiba really should not collapse that was my basic idea.

After I joined as an outsider director, I was surprised that how did they thought about the investment strategy? Westinghouse and other examples, they have had many other mergers and acquisition. They have almost failed in all of them. So, I thought that maybe the management did not make a good judgment in the area of the investments at Toshiba. In the past three years, medical business was sold, and I think it was very good thing that memory business was spun out. Having such a big business and investing several hundred billion yen every year, you need to work only on that business, and to get rid of other businesses. However, in order for TMC to remain a Japanese company, we wanted to maintain majority of TMC by Japanese parties, of course supported by INCJ and DBJ. Being spun off and devoting to the single business, TMC can still survive in the semiconductor industry in Japan. After getting rid of medical and memory business which were the earning pillars but required a lot of cash for investment, now Toshiba can afford to invest in other areas such as infrastructure, and TMC will be developing in their own way.

And the biggest point here is that the time is changing so drastically now, and clearly Chairman Kurumatani and other executives said that Toshiba is going to become the cyber physical system technology company in coming five years. And this is the only direction that Toshiba is going forward. I myself believe that regardless of the industry, as a manufacturer or as a cyber-side company, we have to really go through the digital transformation, and this is going to be the key for all the industries how you create the hybrid technology combining the real data in the area of the manufacturing or real technologies with virtual or cyber technologies. Probably it would be a very intensive competition, but without that, we will not be able to survive in the 21st century. As I see the company from the view of an outside director, I think we see the clear direction now.

Some percentage of the employees left Toshiba, but we still have a very talented personnel. We used to have a siloed organization, but it is critical how those people can make the company more cross functional. A number of experts with highly-specialized expertise, such as system experts, who are necessary for enabling such transformation to cyber physical systems company have joined us from outside of Toshiba. We have been proactively recruiting from outside such as Sony, IBM and others, and had a lot of shuffling of the personnel, including the chairman. In that sense, we have very high expectations. Also you've mentioned that we have probably too many meetings of the Board of Directors. Even though final decisions are made by outside directors and the three committees are made up only of outside directors, the execution is done by executive officers and the Internal Audit Division is overseeing very steadily. We have one full time outside director at the Audit Committee, but in comparison to the Compensation and Nomination Committees, the Audit Committee has a lot of workload and all members are working almost full time. I think this is a kind of abnormal, or more than 30 times of the meeting of the Board of Directors is also probably a kind of abnormal. In the meeting of the outside directors, we are saying that we should really go back to the normal state. We have recognized fully what you pointed out, and after the shareholders meeting, we would like to be more focused.

And as for the advisors, it is true that we still have a few advisors but we used to have more like 30 advisors, so in comparison to that, most of them are gone. And remaining advisors, Mr. Muromachi and others, there are only a few and of course they are not involved in the management or operation. With this size of the company, there's so much of the work which has to do with outside of the company. For example, government related meetings or private sector association meetings, to get that kind of information there have to be some people who play that role. In that sense of experienced former management people, a few advisors are working for the government related activities and also the industry related activities but they're not at all involved in the management of the company.

About the succession plan, the plan is underway steadily. Of course not just by outside directors, but also using the information from internal staff as well. And also we have some external consultants involved. This is just as an example, let's just say we would pick up about 10 talented individuals in their 50s or 60s from within the company. Of course some of the incumbent executive officers are inclusive within there, and we would evaluate them closely. And even in times of contingencies or emergencies, we can deal with those situations. The Nomination Committee has been taking the lead in this front. Now in terms of the Chairman and President, the evaluation of their reputation both from outside and

inside and also their performance in the past 12 months are also part of the schedule as well.

Also you've mentioned, some of the employees are not really excited about the current situation, but I think some are bright hearted, some may not be. But at the beginning of the year on the seventh of January, there was a meeting of the three major business associations. And Mr. Kurumatani was followed by press most heavily in comparison to others. That's what I heard from my PR staff. In the past, Toshiba never really participated in those events, but now it is the center of attention. And it seems from outside view that Toshiba is changing, and has a bright future. That could be the reason why all the press and journalists are after him. I think it is an evidence that Toshiba has been disseminating enough information to attract many people's attention.

### **Overseas Investor C:**

We hope that this is going to be the first among many more especially given you a description of your role, which is that to communicate with shareholders.

I would like to ask a question as it pertains to the skill set of future board members for Toshiba. We feel that the current Board of Directors has done an excellent job through its most challenging period. Toshiba has significantly improved its corporate governance, and implemented accounting policies too. You mentioned that the external board members that are on the Audit Committee are working full time. We recognize the invaluable work that has been done from a legal compliance perspective.

But Toshiba is now transforming itself and trying to turn around its businesses, so we believe that it's critical that the skill set of the board members will be adapted in order to assist the company with these new challenges.

First, I think it is the recognition of the current shareholder base. Toshiba reported in March, 2018 that 72% of shareholders are foreign investors. We believe most of those are asset managers like us. And so it's important to us that we have board members that actually understands the shareholder base.

Second, we also believe that it's critical that some of the board members have experience in businesses. Especially this experience must be materially in international companies, because Toshiba is clearly trying to expand outside of Japan. I believe this is going to drive the success of the Toshiba Next Plan.

Third, it would be adequate or convenient to have board members that actually have experience in turning around businesses.

Fourth, we think that having experience in capital markets and in investing is important in order to rationalize its business portfolio and to decide capital allocation going forward.

Finally, the person who has M&A experience is critical.

Toshiba has 22 business segments now, and that is probably too many. The Board of Directors must be able to guide and assist management in this endeavor.

Now, we obviously understand that it's not one person that can have all those skills. I think our view is that it probably what's needed is, four new board members that have these criteria and that can help Toshiba be again a bastion of Japanese industrial and technology.

**Yoshimitsu Kobayashi:**

(Translation)

The skill set of the board members, the people with different expertise if you add them up, we can easily get to more than 10 results. So how we optimize them will be the question.

First of all, in terms of the M&A skills or professionals, or those who understand the shareholders' base, if you look at the current board members, both outside board members and inside board members are more on the defensive side. Because it was a time of emergency, and so we have two accounting experts and a legal expert. For instance, the Westinghouse issues were negotiated mainly by the international legal and accounting professionals in the past three years. So Mr. Tsunakawa was so much focused on being neutral and fair to make sure that Toshiba can survive rather than operating the company as the original mission of CEO, so our stance was defensive.

But now as you said, unless we have to become more offensive or aggressive, we will not be able to survive. So we have to shift to that. Mr. Kurumatani was invited from outside to become CEO. And that was actually the meaning of that Mr. Kurumatani before coming here was a banker and a venture capitalist called CVC. Mr. Kurumatani fully understand the view of the shareholders and this was one of the reasons why we chose him.

As for M&A, there are several people who have actual experiences. Toshiba experienced losing in almost all of the past investments, I am sure that now we should be able to make a good checking or a good judgment. I believe how we transform the 22 different businesses is the point before doing M&A, and we fully understand what to do without an outside director who has such skill set.

73% of the non-Japanese shareholders is what we have asset managers. So again, it is time for us not to just be defensive, but to turn more on the offense. We have natural changes of the outside board members who have already worked for 3 to 4 consecutive years. As you proposed or suggested those people who have a global management experiences or as I

said earlier, a kind of system architecture who understand that Toshiba is no longer a manufacturing company, we have to create things, not just goods. That is the change of time. We have to also be able to do the good marketing, and there are many people with the experiences outside of Japan and also from outside we have executives, there are three or four new executives who come from outside, who come from the more of a computation or design thinking. And for the digital transformation, that is what we have most focused upon, and we now have a clear direction for Toshiba.

We have to consider the diversity including female board members. Regarding the issue with the Westinghouse or Western Digital, there are many people who actually had such tough experiences. We would like them to turn more positive and we are trying to make such turnaround. In order to compliment that, we probably need one or two people from outside with such skill set. This is our understanding or thinking in the Nominating Committee right now. This is the same direction as what you suggested, but whether to have four new board members that is not in our plan right at this moment.

**Domestic Investor D:**

(Translation)

Regarding meeting of the Board of Directors and also the Board of Directors Council, you have disclosed a number of meetings, but what is the time spent on these councils and how well the material has been shared prior to the council? As for the meeting of the Board of Directors, what is the average duration and if there are any problems, was there an incident where the outside board members have pushed back to have more deliberation on that matter? As a shareholder, we would like to concretely know what kind of discussions you have done on the meeting and the council. Our concern is how you have had substantive discussion there, so please explain it not just formally but practically.

**Yoshimitsu Kobayashi:**

(Translation)

This is just generally speaking how it has been taking place, and the Board of Directors Council starts from 8:00 or 9:00 in the morning and it is adjourned around lunch. In terms of meeting of the Board of Directors, of course it really depends on the topics and items, but it tends to be shorter in time in comparison to the Board of Directors Council, but having said that, it would still take up the entire morning or so. Until the Board of Directors' final judgment related to the sale of Memory business to Bain capital, we sometimes started the meeting at 8:00 all the way down to late afternoon. But the meeting is normally completed

in the morning. We have a quite material discussion in the councils, so we sometimes don't complete an issue in one council. A meeting of the Board of Directors is held at the time when the resolution needs to be made, but having said that a couple times outside board members opposed to some of the topics, and it was extended then.

**Domestic Investor E:**

(Translation)

I would like to clarify that in formulating Toshiba Next Plan, how the outside directors were involved in the decision making. It is true that the Toshiba Next Plan was such that you are trying to recover in the short-term, but as for the medium to long term top line growth, if you look at that probably it's a bit too hasty. For example, the growth of the medium to long term infrastructure, elevators or those businesses, the increasing or improving their top line is mentioned in the area of that infrastructure. From the equity market perspective, your view and the market conditions might be a little bit different. So to invest your resources there and to increase the top line is the correct decision or not. There are some questions about that. You mentioned that there are 22 units and there are experts in each one of them and important role of the outside directors is to make sure that that goes well in the decision making, but to what extent were the outside directors involved in the decision making? Maybe you can share with us your own impression.

**Yoshimitsu Kobayashi:**

(Translation)

Concerning top line, we were targeting eight trillion yen or so in the past, but now it is coming down to four trillion, five trillion size after the separation of some businesses. So, four trillion is not so farfetched or it's not too difficult, that's my personal view. The process or the background of Toshiba Next Plan, from the January last year Mr. Kurumatani, we wanted him to be the leader and he started his activity from March timeframe and April became the executive and then a director in June. From that time he was aware of creating his next plan and have had the discussion among the executives. We started to disclose it from June, July, August timeframe, but in that time we started to listen rather than to discuss in the council meetings. Before the announcement on the 8th of November, we had discussed in detail in October timeframe and even looked at the contents and design of the documents for the presentation.

We focused on how to rationalize what we have rather than just going for M&A, and to review what we have in our portfolio and what would be the next pillars of our businesses.

We have scrutinized different businesses. For example, the infrastructure related businesses such as lithium ion batteries, which are under development or railway related business or elevators, and also Toshiba TEC. And healthcare, even though we sold Toshiba Medical to Canon but for example we still own the technology of the heavy iron radiotherapy and have won the order in Korea. We tried not to become too optimistic and we tried to collect each one of them and look at the total picture. So not only top line but also bottom line from 60 to 70 billion yen and 100 billion to 120 billion, those numbers are not so impossible to achieve. We now have a good consensus at The Board of Directors and also among the executives, that in coming five years cyber physical system technology company is what we are trying to become. As for the outside directors, especially the Audit Committee directors, most of them are really fully operating and going to overseas sites and visiting the major plants in Japan. Now part of the outside directors is at a difficulty spending such a long time but still they deeply participate in the Board of Directors discussion. So I don't feel that the top line target is too high.

**Overseas Investor F:**

First of all, may I say thank you to acknowledge your leadership of the board through a very difficult period at Toshiba. There's an expression along the lines of 'never let a good crisis go to waste.' Toshiba Next Plan lasts five years, which is quite a considerable period of time. And one of the risks could be that as initial success is achieved in the plan that the sense of urgency or the intensity around change in the organization begins to diminish as the crisis fades into the background. As the chairman how will you ensure that the intensity and sense of urgency is maintained in year two and year three so that the goals are achieved?

**Yoshimitsu Kobayashi:**

(Translation)

I have mentioned three years since the crisis, but I think it's only now that the situation has been subsided and the defense phase has been settled finally. We have finally decided to completely withdraw from LNG business in the US and the nuclear issue in the UK, so these major risks have been almost resolved. It seems as if we have been on the defensive all the time. Also we were focusing solely on semiconductor business investment before and we were not able to reallocate resources elsewhere, now that is over. We are finally on the offensive, and Mr. Kurumatani and all the other directors, executive officers, now they are becoming more and more passionate towards creating a revived Toshiba.

I think the issue here is the group governance, how we inherit that including the nuclear power business issue. Now we have the headquarters and four major companies, of course we will not forget the past experience at that level, but when it becomes to subsidiaries or sub-subsidiaries or if you go to some of the overseas affiliates, the question is how we can retain and maintain the high level of governance. I think that is very important and I think this is a common question, not just for Toshiba but also for the Japanese corporate sector as a whole. Now, we have those who have already experienced the sense of urgency, and that includes outside directors and also executive officers. We are bound to see reshuffling of them in few years' time, so the question is how we can actually incorporate that, especially governance and compliance issue, within the DNA of Toshiba. We've gone through such a crisis, so I believe and I would hope that we will not regress back to where we were. In any case we are at the offensive phase right now, so I think that is more of the appropriate way to picture the current situation.

**Overseas Investor G:**

(Translation)

So listening to what you said, I think you realize some of the changes in coming years. We are hoping that you would make this more visible to us. One of our concerns is that the support for directors were quite low at the shareholder's meeting last year. I would say on average 85%, especially at the Chairman and CEO, Mr. Kurumatani 63% support. From our perspective, it's surprisingly low. As Toshiba, what was your reaction, what do you think of those low numbers? This is the new structure, so the shareholders might evaluate it toward next time. But were there any issues felt with the current structure? If so, what would be the next steps and are there any changes that you might be making toward the next structure?

**Yoshimitsu Kobayashi:**

(Translation)

Well, yes, the number of the support was smaller, and that is a fact and we like to take this very sincerely, Ikeda san and myself had the low support. The ISS recommendation of course, I cannot mention the details, but maybe there was a question about the independency that was the reason for lower support. If I may read my note at hand, here one of disqualification reason of Independence Criteria defined by Toshiba says, "the outside director currently belongs or at any point in the past three years has belonged as an executive director, executive officer, or employee to a company whose transactions with the

Company in any of the past three fiscal years totaled a monetary amount exceeding 2% of the consolidated net sales of that company or the Company". This was clearly indicated in the convocation notice of the shareholders meeting. It clearly says, "Mr. Ikeda and myself meet the Independence Criteria". And actually Toshiba's transaction amount with Asahi Group and Mitsubishi Chemical respectively was less than 0.1% of the net sales of each company. So understanding of such facts probably was related to the ISS recommendation. I reserve my comment on Mr. Kurumatani, but in any case, we need to accept the fact as it is and in the next shareholders meeting, we aim to get a higher percentage of support and realize better results.

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