

Disclaimer:

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## **Toshiba Corporation – Meeting between directors and a group of investors Q&A Session (November 15, 2021)**

### **Moderator (Translation)**

First, we will answer the questions that we received in advance. There were three questions.

Q1. What is the voting threshold that is required for approval of the Separation Plan at the EGM? Will it be legally binding? What is the reasoning behind the vote threshold, form, etc.?

A1. We believe that it is important to get approval from shareholders to press ahead once and for all so that we can focus. To that end, we are currently debating how best to do that in terms of the EGM agenda.

Q2. How will the upcoming capital allocation policy differ from the past? Why should shareholders have confidence now given historic returns?

A2. We will facilitate a cleaner comparison to peers' leverage and returns. We also will continue to review our portfolio and divest non-core businesses and assets. Infra Co. and Device Co. will independently set their capital allocation policies and shareholder return policies, based on their respective business profiles and industry benchmarks, at the latest by the completion of the Separation Plan.

Q3. When should we expect more clarity on the size and timing of additional divestitures? What information should we expect as part of the "detailed road map" in advance of the shareholder vote at the Company's EGM?

A3. We will continue to review our portfolio and divest non-core businesses and assets. We are currently debating how best to do that in terms of the EGM agenda as well as the detailed road map.

### **Overseas Investor A (Translation)**

There have been various governance issues leading up to this announcement. Tsunakawa CEO, you have been serving as the Interim Chairperson of the Board of Directors since the last Annual General Meeting of Shareholders (AGM). Let us assume that you are striving for appointment of the new Chairperson and continuing other governance reforms. How much progress has been made in these areas? Also, how will the spun-off entities' governance structures be organized to obtain the trust of shareholders? Please share the initiatives and plans.

### **Satoshi Tsunakawa (Translation)**

The Nomination Committee continues to discuss the matter of the Chairperson. I am the interim Chairperson, so I would like to follow the decision of the Nomination Committee. Until the decision is made, I remain firmly committed to our initiatives as well as the Separation Plan. Also, the Governance Enhancement Committee (GEC) made an announcement of their report on the 12th. The report pointed out that Toshiba has faced governance issues for a long time. We take the findings provided in the GEC report seriously and will engage in in-depth discussions within the Company to finalize a reform plan, reflecting the recommendations.

### **Paul Brough**

Since Mr. Zage, the Chair of the Nomination Committee, is not with us today, I would like to make additional comments. As Tsunakawa-san has mentioned, the Nomination Committee has held discussions the governance going forward for both spun-off entities. The spun-off entities will have independent Boards of Directors and separate management teams and we are working on that. The other thing is we also are working on is strengthening all the governance processes. For those who have yet to read the GEC report, a lot of the strengthening of this governance will relate to creating a more independent board and board processes, so more changes will come in the future.

**Katsunori Hashimoto (Translation)**

I am Hashimoto, the Chair of the Audit Committee. I would like to add a few words to the answer. The Audit Committee has been slightly understaffed since the last AGM. We are in the process of interviewing several candidates through the Nomination Committee. I would like to add that the current plan calls for an increase in the number of Audit Committee members by the time of the EGM or other appropriate timing.

**Overseas Investor B**

I want to check two things. One is just to check if NuFlare Technology would be in the Device Co. upon the Separation?

**Satoshi Tsunakawa (Translation)**

Yes, Nuflare Technology will be part of the Device Co.

**Overseas Investor B**

So it sounds like it'll be a pretty tax efficient structure with the Separation. What would be the likely difference versus say an asset sale, so would there likely have been a big tax impact if for example, the devices business was sold rather than spun out?

**Katsunori Hashimoto (Translation)**

The Separation Plan utilizes the tax-qualified spin-off structure available in Japan, so we think it should be tax-free for Toshiba's shareholders<sup>1</sup>. In the case of selling transferring assets/liabilities, the difference between book value and fair market value is taxable. Consequently, the taxation on the difference is felt by shareholders as well. However, the Separation Plan enables Toshiba's shareholders to become shareholders of the Device Co. and Infra Co. as well, without recognition of capital gains (and therefore no tax is suffered).

**Overseas Investor B**

Are you able to comment on what type of magnitude of capital gains tax we might be looking at for either the Device Co. or the Infra Co. That would be helpful because we don't have a clear sense of what the tax basis would be. In addition, is there a time limitation on doing a spin-off, to maintain that non-tax status? For example, do the spun-off entities need to be listed for 2 years after spin-off?

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<sup>1</sup> This comment refers to the tax consequence in Japan (regarding our shareholders who reside in Japan), which may differ depending on a country of residence of a shareholder who does not reside in Japan.

**Katsunori Hashimoto (Translation)**

The tax-free nature extends to only shareholders. Corporate taxation will be applied to the spun-off entities as it normally would. We mean that the taxation for the shareholders on capital gains is exempt<sup>2</sup>, not the corporate taxation of each entity is exempt.

I understand that your first question was related to the amount of capital gains that the Device Co. and the Infra Co. will incur. Those are related to the differences between Toshiba's current book value, or in other words, the book value of the assets and liabilities that will be transferred to the both entities, and their fair market value, but I do not have these figures for now. In addition, the gains will depend on how assets, some of which are currently utilized by both spin-off entities, will be allocated between the companies. However, regarding materiality, please understand that it will be of substantial magnitude.

**Jerry Black**

I'd like to add that Toshiba also has significant NOLs, which can be utilized against capital gains tax liabilities.

**Overseas Investor B**

Okay, and that's also part of the allocation process, so it's not clear at the moment where the NOLs might be set? Or is it already quite clear which entity they belong to?

**Paul Brough**

The NOLs belong to the existing Toshiba Corporation, and as far as I know, the NOLs cannot be transferred and must stay with Toshiba. This is an efficient way of utilizing those losses against capital gains on spin off.

**Overseas Investor B**

So they'll stay with the sort of asset management remaining Co. (the existing Toshiba), essentially.

**Paul Brough**

Yes, correct.

**Overseas Investor B**

Yes, okay. I guess, if you monetize Kioxia or perhaps even Toshiba Tec, if there were any gains, are you able to use those NOLs against those?

**Paul Brough**

Yes.

A key consideration of this plan is that when Kioxia is monetized there will be significant NOLs at

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Toshiba, code 6502, which could be utilized against capital gains arising on the monetization of Kioxia. That's partly why Kioxia remains under 6502.

**Overseas Investor B**

Have you disclosed again the magnitude of the NOLs so far?

**Paul Brough**

No, we have not.

**Overseas Investor C**

I guess this is a question for Paul or anybody on the SRC. Could you elaborate on your discussions with private equity? Could you disclose whether or not there was actually a formal price solicitation process? If so, how formal was this price? Was there any competitive dynamic between the different offers, if any, that you received? If so, what kind of price are we talking about? How did you come to the conclusion that the spin-off was more beneficial to the shareholders through this process?

**Paul Brough**

I think that the SRC's thought process is set out quite carefully in the SRC's letter, on pages 6 and 7, where we talk about the private equity process. We have to respect the confidential nature of our communications and will not disclose the individual pricing analysis that we received from private equity funds.

But what we asked these private equity funds was their thoughts on price and transaction structure and also timeline to closing. We provided them with medium-term business plan numbers, so they could run their models. But what we found, and what we asked for, was a meaningful perspective on the price levels at which those private equity funds could accomplish some sort of privatization.

Now, the SRC noted that those prices were not compelling relative to market expectations, and we also compared them with what we thought were going to be the price ranges for the other options we looked at, and we concluded that the Separation Plan almost certainly presented our existing shareholders with a better long-term value proposition. That's why we decided to go with that one.

**Overseas Investor C**

Okay, so regarding market expectations, you sort of had a price in mind and these numbers basically didn't stack up to that number.

**Paul Brough**

That's right.

**Overseas Investor C**

Okay, and based on the share price reaction since the spin-off has been announced, I guess it's been sort of net neutral for the share price, at least so far. These prices were comparable to the current share price or...?

**Paul Brough**

I can't give you any further indication, given confidentiality considerations we respect toward these firms. I'm sorry.

**Overseas Investor C**

Okay. I have one question. If some of these offers are actually made public by the bidding entity, would you still be open to considering such offers or at least giving shareholder the opportunity to compare and make a decision based on this?

**Paul Brough**

If they were made public at the level that was indicated to us, we would not change our mind. We have already said that we believe the Separation Plan is the better alternative for our existing shareholders.

**Overseas Investor C**

I get that that's your perspective, I'm just curious as to whether or not shareholders would be given the opportunity to actually have a voice in that process.

**Paul Brough**

I think our largest shareholders are all sophisticated investors, they all have their own models, they all have a considerable amount of information about Toshiba. As we noticed with the PE firms that we spoke to, and a number of other shareholders that we spoke to, they're all pretty capable of determining a price for Toshiba themselves. I think they have a view as to what they think Toshiba would be worth in a privatization. I would hope they would agree that our plan is going to offer more.

**Overseas Investor C**

Great, but these prices were not compared amongst they were not disclosed to each other, so there wasn't really a competitive dynamic between the multiple parties, was it correct?

**Paul Brough**

No, we didn't ask people to bid for the Company. We asked them what they thought would be the clearing price for a privatization. We have never said no to any incoming offer if it was a bona fide proposal for the company.

**Overseas Investor C**

Okay, so you haven't received the bona fide proposal for the Company because you haven't requested one?

**Paul Brough**

Not since April.

**Overseas Investor C**

Thank you very much.

**Overseas Investor B**

Hi, I just missed that one bit at the beginning from previous question. The indications of levels were on specific assets rather than for the group as a whole? Is that correct?

**Paul Brough**

No, that's not correct. It was for privatization of the group as a whole.

**Overseas Investor B**

Okay, did you also ask for indications or levels for individual assets?

**Paul Brough**

No, we did not. Again, that is discussed in the letter, we have had incoming inquiries from strategic as well as financial investors, and they have been dealt with in the normal course of business.

**Overseas Investor B**

Okay, so just to be clear, it is possible that there is something parallel going on, this sounds like you're saying that there is parallel process potentially that could result in asset sales?

**Paul Brough**

I understand what you're saying. This Separation Plan, as we've said, marks the beginning of a two-year process rather than the end of that process. In the SRC's letter, we point out seven recommendations we've made to management to ensure the smooth execution of the Separation Plan. One of those recommendations say that we should continue with the portfolio review, including the disposals of businesses, cost reductions, further investments, etc.

When I say this is the beginning of the process, the ongoing day-to-day management of this business continues. It does not stop for two years, and as part of that ongoing day to day management, we are continuing to assess the portfolio and where we think that companies would prosper better in different hands, then we will consider offers for those businesses, and where we think we've got some great businesses, we will consider further M&A and investment in production capacity.

**Jerry Black**

Just to add to that response, there has been, of course, discussions with both private equity and strategic investors. A lot of the discussion was sharing thoughts on Toshiba, where they felt we have competitive strengths or weaknesses, where they thought the technology needed to be strengthened, what they thought was core or non-core. There were some that expressed an interest in full scale privatization should it come to that and there are others that expressed an interest in parts of the business. That was just kind of a natural evolution of the discussions.

**Overseas Investor B**

I just want to check because earlier you mentioned that you have determined the spin-off is in the best interest of shareholders at this stage versus the privatization of the group. I just wanted to clarify that asset sales in itself is not precluded from having made that decision.

**Jerry Black**

It is not precluded, and it doesn't need to be delayed until the execution of the spin-off is done as well.

**Overseas Investor B**

Right, that's a very good point because I think one of the things you mentioned, the reason it takes two years, which is obviously quite a long time is that you need two years of accounts for spun-off entities from March 2022. I am assuming that if you were to sell any of the businesses within two spun-off entities, that would not delay. Having those 2 years of audit would not delay the sort of regulatory processes for the spin-off, is that correct?

**Paul Brough**

Everything we will undertake in the course of the next two years will be undertaken with the Separation Plan in mind because we would not wish to disturb that. However, when the Toshiba Next Plan started in about 2018, that contemplated the turnaround of Toshiba's fortunes, and that turnaround plan is still underway. That will consist of a number of distinct elements such as portfolio review, such as programmatic M&A, as we call it, plus further cost cutting, and that will continue day-to-day. We are not just resting for the next two years, and that was a point we really wanted to make to our shareholders. This is very much the start line, not the finish line, as far as the business is concerned. Sorry to repeat that, but we need to make sure of this.

**Overseas Investor B**

No, absolutely, and just to make sure that if you were to sell an asset within either of those two spun-off entities parameters, it would not mean that you have to start again, in terms of the two years clock on accounts, etc. Therefore, there's no impediment if you like to selling an asset if you have received the right price for it?

**Paul Brough**

That's correct, and of course, we would have to entertain any inbound interest, as we would under normal circumstances, a special committee would be setup to review any proposals that we receive.

**Overseas Investor B**

Okay, thanks.

**Overseas Investor D**

Thank you to the Directors for their time today. I just wanted to ask a clarification question just based on question earlier which was I believe that regarding the PE process that the SRC did not ask for a price to bid for the Company but asked for clearing price for privatization proposal. I am just wondering if you could help us understand what is sort of in technical terms meant by a "clearing price" and what does that tell us about the value of the company?

**Paul Brough**

We asked each individual private equity house what price they thought Toshiba could fetch in a

competitive bid process for the Company. That is what we mean by a clearing price.

**Overseas Investor D**

Okay, so that's different from the bid itself because that is not a bid for the Company, but that is an idea, their idea of what a successful bid price would be.

**Paul Brough**

We spoke to four very credible institutions who understand the Japanese market well and have done a great deal of work and research on Toshiba, so they were very well informed, and they were very well prepared. We asked them what they thought the privatization of Toshiba would bring in a competitive bidding process, and they provided us with a figure. We thought that was a very good indication of what a real process may deliver.

**Overseas Investor D**

Correct. Okay. Thank you. Then one more follow-up question based on the statement from the SRC. Thank you for the comprehensive report. One element that we wanted a bit more clarification on was there was a comment that private equity funds would be amenable to having the existing shareholders roll into the privatization and remain shareholders if they so desired. Just based on where the share price is trading today, and should it go down to a level which would make the private equity bids then seem attractive, would this still be an option that is available to the shareholders for them to decide or is that really ruled out at this stage?

**Paul Brough**

I think there's a lot of conditionality to your question there and a lot of scenarios that may or may not happen, and unfortunately, I cannot speak for the private equity houses we spoke to, but I think in principle, what they were saying was if investors did not want to sell at that price, they could obviously roll in and go along with the private equity houses while the business was being dealt with. I can't really be much more specific than that I'm afraid.

**Overseas Investor D**

Thank you very much.

**Domestic Investor E (Translation)**

First question. When will the new management structures of Infra Co. and Device Co. be placed? When will top management be selected and he/she drives the Separation Plan?

Second question. Will the remaining Toshiba, which will have only Kioxia and Toshiba Tec stake, ultimately disappear?

**Satoshi Tsunakawa (Translation)**

The detail of the new Infra Co. and Device Co. and their structure has yet to be finalized and will be fixed later. As for the remaining Toshiba, it is hard to determine the time that is needed for monetization of Kioxia stake through IPO. We will be studying its structure. We are not at the point where specifics have been determined.



**Securities company F**

After looking over the updates by the SRC, I wondered about the following in light of the fact that steps are being taken for the listing of the spun-off entities. Will you consider a potential TOB for the spun-off entities after the Separation? You have said the listing of the spun-off entities is not the goal, so what vision does the Company have for the period after listing? I would appreciate it if you could share your thoughts, even if the answer is nuanced.

**Paul Brough**

We have concluded that the Separation Plan is the best path for Toshiba. We have said that before we proceed with the Separation Plan, which will cost us at least ¥10 billion and will create a great deal of distraction for management, we would like to get endorsement from our shareholders. That's why we're doing the EGM upfront. It is our responsibility as a Board to always entertain any incoming bids for our businesses, or for the entire business. But as at this time, since April, we have not received any takeover bid for the entire business of Toshiba, and to the extent that we've received inquiries from other strategic investors with regard to businesses, we are handling those in the normal course of business.

We still believe that the Separation Plan is the best way to go. We're at the start line, and we've got a lot of work to do in terms of the regulatory, accounting, and the legal hurdles that we face. As we mentioned in our letter, the SRC will continue to supervise all of that work, all of that diligence work up until the EGM at which point it will be replaced by a Steering Committee that will be responsible for the execution of that Plan.

**Securities company F (Translation)**

I understand that the Separation Plan is the best choice for Toshiba. However, this also means that there are fewer obstacles to TOBs of businesses of each entity after the spin-off. Will this kind of opportunities be actively sought again?

**Paul Brough**

That would be up to the individual Boards of those two entities to consider. At the moment, what we are focused on is creating those entities, creating their Boards, creating their separate management functions, R&D functions, etc., and when the new Board is installed, that will be the appropriate body to entertain any inquiries about their businesses.

**Securities company G (Translation)**

It appears that one of the goals is to eliminate the conglomerate discount. The conglomerate discount is being applied, and a discount is being applied on Toshiba's stock. On which businesses or entities do Toshiba's management think that the discounts are being applied heavily? In other words, why do you believe that separating Toshiba into the three entities of infrastructure, electronic devices, and remaining Toshiba whose main asset is the Kioxia stake can eliminate the major discounts?

**Satoshi Tsunakawa (Translation)**

I stated three goals at the briefing. Everything about the device business and the energy and infrastructure business—their business cycles, investment, and customers—is different. Separating those businesses that have clearly different business cycles unlocks their value, and this is one of the goals. While this should lead to the elimination of the conglomerate discount, unlocking value is one of the key goals.

**Securities company G (Translation)**

As operational and financial performance at the device business and the energy and infrastructure business has been disclosed well, the market understands their business performance appears to have reached a relatively large audience. In contrast, views on the value of the Kioxia stake appear extremely divergent. Does Toshiba’s Board of Directors not think that the biggest opportunity to eliminate the conglomerate discount is to have the Kioxia stake’s calculated value accurately appraised?

**Satoshi Tsunakawa (Translation)**

The Kioxia stake is certainly difficult to evaluate, so bringing clarity to this is also one of the goals.

**Securities company H (Translation)**

I have two questions. The investors have been asking, from a variety of perspectives, when the various relevant matters will be finalized. The responses have been “they are still being studied,” but it will likely be difficult to obtain approval from shareholders at the EGM of the January to March period unless the structures and strategies of the new entities, as well as their management structures, are not finalized. I fully understand that it is impossible to explain that which has not been finalized. Nonetheless, should we assume the timeline will be that the EGM should come after finalization of the management structure and the strategy under the new management?

**Satoshi Tsunakawa (Translation)**

As I explained earlier, much is yet to be finalized including the management structures. Management has thoroughly discussed the business plan while discussing the MTBP, which is focused on how to increase shareholder value. Device Co. and Infra Co. are working on the business plans respectively, and briefings will be held prior to the EGM. We hope to see these plans properly reviewed at that time. The management structure might likely not be finalized by then, but we should be able to present the business plans at the least.

**Securities company H (Translation)**

My second question. The previous questioner raised this point during his question. The conglomerate discount will continue under Toshiba’s current structure, and this likely led to the decision to separate into three entities. What do you envision for the structures of the three new companies? Until the completion of the Plan, is Toshiba going to continue management that will continue the management plan that will result in the conglomerate discount? For example, will Infra Co. and Device Co. be affected by the legacy Toshiba’s slow decision making? While the device business is currently profitable, will CAPEX be reduced should its performance deteriorate? Or, is management going to be entrusted to the respective operations for the next two years. If nothing changes until the actual spin-off into three entities in the latter half of FY2023, it will take some time to eliminate the discount and increase the

corporate value of the respective entities. What management initiatives are planned?

**Satoshi Tsunakawa (translation)**

As Paul explained, this Plan is about more than the finalization of the form. Over the next two years, we will continue the portfolio review including divestitures, on an ongoing basis. Business operations has been delegated to each in-house company of devices, energy, infrastructure, digital solution, etc., so we make the top management of these in-house companies provide speedy, agile management. Shock therapy may be an inappropriate term, but if the respective businesses are suffering from a large company disease, this should be an opportunity to accelerate the required improvements and provide agile management. We have not separated yet, but this should be a good opportunity to push the CEOs of the spun-off entities to provide speedy management and accelerate the management cycle.

**Satoshi Tsunakawa (Translation)**

Thank you very much for joining us today. As I stated earlier, I also believe that this path is the best one forward for Toshiba's solid growth in the future. We will provide more opportunities for explanation, and listen to opinions from shareholders prior to the EGM and provide solid explanations if needed. We look forward to receiving your support for this Plan. Thank you very much.

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