

Disclaimer:

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Toshiba Corporation – Meeting between directors and a group of investors Q&A Session (November 16, 2021)

Overseas Investor A

One of the reasons why the SRC was launched, was due to CVC's unsolicited bid. Have you solicited any conditional or unconditional bids in the past few months?

Jerry Black

I'll answer it from the SRC perspective. The SRC was not formed as a result of CVC's unsolicited letter of interest, we didn't really consider it a qualified bid, but the SRC was really formed to have a solid foundation in terms of our capital allocation policy and the best way to deliver value to shareholders. In that process, we did not receive or ask for solicited or unsolicited bids per se. As the SRC letter does specify, we did engage with several private equity firms in several areas of discussion.

One area of discussion was their viewpoints on Toshiba – their viewpoints on our competitiveness, our core assets, non-core assets, what were the opportunities for the Company, and so we engaged at that level. Finally, there were several levels of engagement with several of the larger firms. In one of the rounds of engagements, we did ask for their perspectives or opinions about valuation of the Company. But we did not launch a competitive bid process, but we did try to engage and try to solicit information on their viewpoints of the Company, both core versus non-core, as well as their perceptions about obstacles, and their perceptions about piecemeal valuation of the Company.

Overseas Investor A

To follow up then, why do you think your process was sufficient even though unconditional bids were not so solicited? Do you think that PE funds will agree with the analysis that the SRC has made?

Paul Brough

I think our letter is quite a long letter. It explains a fairly exhaustive process. I think whether our shareholders agree or not with us, they will see that it's been very thorough and very objective. As Mr. Black has stated, while some shareholders and media assume that the SRC was formed specifically to run an auction process, that was not our mission. Our mission was to look at a broader range of alternatives, and if you look at the letter, you will also see that we did quite a bit of work with regard to the privatization process, including taking a number of credible houses through a number of stages with regard to a privatization process. At the end of that, having considered privatization and a number of other alternatives, we came up with the Separation Plan, and the reason we did that was because we thought it presented the best long-term value for our shareholders.

Overseas Investor A

Do you think the PE funds will agree with your analysis?

Paul Brough

I think the PE funds will understand, the ones that we spoke to will understand that it has been an exhaustive process. They were highly helpful, and they came up with some very good information analysis for us. As far as our other shareholders are concerned, you should ask them, not me. They will have their opportunity to express themselves in the coming weeks and ultimately at an Extraordinary General Meeting of Shareholders (EGM).

Overseas Investor B

The Board's proposal is a bold and innovative restructuring of the Company. In the Monday session with shareholders, the Board said that the type of vote in the approval threshold for the Separation Plan has not yet been determined. Article 309 of the Companies Act suggests that a spin-off of more than 20% of assets of a company requires two-thirds approval threshold. What other vote alternatives are being considered for this EGM and why?

Satoshi Tsunakawa (Translation)

We intend to hold an EGM between next January and March to first of all confirm whether we can obtain approval for this basic direction from our shareholders. Ultimately, we are working thoroughly to obtain two-thirds shareholders' approval in 2023 so that we can proceed to the completion. This is the process that we would like to follow.

We are discussing what is the best way to listen to our shareholders and its detail.

Overseas Investor B

Will the EGM vote between next January and March be 50% threshold?

Tsunakawa (Translation)

We think for the AGM in 2023, an approval of two-thirds is necessary. As for the EGM, the threshold has not been finalized.

Overseas Investor B

Undecided if it's going to be 50% or two-thirds in January, but at some point, you will need to get two-thirds.

Paul Brough

I think it has just been mentioned that at some point in the next two years, we will have to go back to shareholders with a formal resolution to be passed in a shareholders' meeting, and I believe we will have to follow the Companies Act at that point in time. The EGM that we're looking to hold early next year is really to ask our shareholders if they are behind us developing this Plan further. The reason we're doing that is because it's going to cost at least ¥10 billion, it's going to take up to two years (we hope to make it quicker) and it's going to create huge distraction for management and some distraction for our employees and for our customers. Before we embark upon this, we really want to get feedback from our shareholders, and for them to say to us, "yes, we like this plan". If they don't like that Plan, we all have to consider other alternatives.

Overseas Investor B

I guess given the time, if you get to 50% in the near term, but then you run the risk of not getting the two-thirds in 2 years. That seems like a lot of cost and time for something that's unknown. Wouldn't it make more sense to just get to two-thirds today?

Paul Brough

I think the Board will consider that in March when we've got feedback over the next few weeks as well as from the EGM. It's a little premature, only 3 days after announcing the Separation Plan to be making those kinds of decisions. But I understand your point.

Overseas Investor B

Later, okay. Thank you.

Overseas Investor C

In the event that this is not that good, the Plan is not passed at the EGM, can you elaborate at all on what your other alternatives are?

Satoshi Tsunakawa (Translation)

We are making efforts so that our proposal will obtain approval at the EGM. For this, we will be listening to feedback while promoting understanding during the time up to the EGM.

Overseas Investor C

I understand that you are making efforts to try to have it passed, but in the event that it does not pass, can you elaborate it on what the alternative courses after the EGM?

Paul Brough

Ultimately, as you say, this is the shareholders' choice. But after a very thorough process, the SRC made this recommendation to the Board with great conviction, so we believe that this is the best path forward. The reaction we've had from shareholders is yet to be really gauged. It's only been three days, but if shareholders don't like this, then speaking for myself, I'm not going to be implementing a plan that I haven't got conviction about. I will have to reconsider my own position on the Board. That's fair enough. I don't think shareholders would want me to help implement a plan that I don't have any conviction about.

Overseas Investor C

Understood, thank you.

Overseas Investor D

The SRC has spoken in the letter about the need to establish a growth strategy for the Company. With that in mind, I think we're a bit confused that the projections that were put forward didn't actually include any growth. Can you talk a bit about why that happened, and how we should think about your growth trend or plan for the company under this framework?

Satoshi Tsunakawa (Translation)

We have outlined the Company's form, as an evolution of Toshiba for the future. We are planning to hold a strategy briefing before the EGM to outline the growth strategy of the two new entities.

Jerry Black

I think I can elaborate a little bit on that. I think that as the SRC letter mentioned this is the beginning of the process, not the end of the process. As we go forward, we have multiple work streams and among those work streams, as Tsunakawa-san has mentioned previously, we have a business plan from each of the businesses. As we go forward with the multiple work streams, parts of those work streams are focused in the areas of kind of a bottoms-up approach to CAPEX and R&D as well as better understanding of our SG&A cost and benchmarking those costs in how to streamline the businesses, so those are multiple work streams that are as part of this. We view this as the beginning part of the process, not the final projections.

Overseas Investor D

Okay, and so then, or should we be expecting that there will be kind of longer term, more defined financial projections for each of the separated business units as we move on with the process?

Satoshi Tsunakawa

Yes, exactly.

Overseas Investor D

There was another thing that we were a little surprised by. I know there's been a lot of discussion about what is core and what is non-core. Obviously, taking the step into three buckets is a big step forward. But have any decisions been made about core versus non-core? Or will those decisions be made down the road? The question is, do you want to split into these three buckets and then decide what should be the constitution of each of those buckets going forward?

Paul Brough

I think the approach was this. We have split one big problem into three more manageable pieces. We are fully aware that separation does not solve all of the problemsthemselfes, and as Mr. Black said, the separation is not the end, it's just the beginning. At the end of the SRC letter, you will see seven recommendations that the SRC has made to the Board. These are to be worked on immediately, rather than in two years' time, and one of those recommendations is to continue the portfolio review including the disposal of businesses and the reduction of costs, and indeed continuing to invest prudently in R&D, programmatic M&A and production capacity. That portfolio review is ongoing as well as the turnaround of Toshiba's businesses, as was started with Toshiba Next Plan, a couple of years ago. Whilst the separation is ongoing, the day-to-day management of the business and the day-to-day turnaround of the business continues and will continue to do so even over the next few months.

Overseas Investor D

Okay, thank you, and then can you give a bit more details as to how the separation will actually be implemented? Assuming that you get shareholder's vote, when would you actually start operating under this structure? When does that operation happen? When do you put management in place? Are

there other intermediate steps you plan to take?

Paul Brough

This is a two-year process. There will need to be some form of shareholder approval towards the end of that when we have a fully developed plan. But the steps that we're taking, and there are thousands of them, is toward two separately managed businesses with separately managed boards. That begins today as well including the work of the Nomination Committee to identify in due course the appropriate management for each business. So this is more of a continuum than doing nothing until this plan is approved. Those businesses individually require their own individual turnarounds as well. We will continue to manage those on a day-to-day basis.

Overseas Investor D

Okay, and then one more question. Clearly the stake in Kioxia is one of the Company's most valuable assets. Putting that into a tax advantaged liquidation structure with 100% of proceeds going to shareholders is quite favorable for all of us. We appreciate your thinking of that. It would be quite helpful though to understand the potential size of the tax benefit if people are trying to think about the kind of some of the part value of these three entities.

Paul Brough

Yes, I think we'll provide more information on the NOLs as we move along this process. I don't have that information for you today, but they are significant. They stay at 6502 (existing Toshiba), the listed entity and they can't be transferred. That's why Kioxia is staying in that entity.

Ayako Weissman (Translation)

I would like to add one more thing. Our dialogue with strategic partners will continue. That's one thing that I just wanted to add.

Overseas Investor D

What has been the reaction of employees to this Plan?

Satoshi Tsunakawa (Translation)

I have already talked to executives, and shown a video message to all employees. Some media say this Plan means a dissolution of Toshiba, but I believe employees have well received my solid message that this is an ongoing process in which Toshiba evolves with the times and that it is just the beginning. Thank you for the question. This is a quite important matter, so I will continue to directly and continuously communicate with employees.

Overseas Investor E

This is a follow-up question on growth, because a key pillar to the proposal or to the Separation Plan is growth. However, unfortunately, the information that shareholders have to assess that growth is a bit lacking. For instance, the mid-term plan envisions spending 800 billion yen on R&D and CAPEX, but the projections only show 30 billion yen of OP growth over the next two years, which is only a 4% return on that 800 billion yen of investment. As the previous participant pointed out, no growth

guidance post fiscal year 2023. I just wanted to ask specifically before the EGM, will shareholders have specific reasons for why we should assume the Company's future growth and capital allocation will be different from the past?

Satoshi Tsunakawa (Translation)

In regard to the drafting of this MTBP, we have discussed it for 4–5 months since the last AGM in June. During the first three months, we drafted particularly the growth strategies of each business and the plans for the next four years until 2025. In the past, investment has been somewhat on the low side, so we are planning to solidly invest for the future, and the figures reflect this. However, for this time, we are focusing more on the forms that the Company will take, and how we will subsequently evolve than on such long-term business plan. So we have not included the mid-term business plan until 2025 in our presentation. As I mentioned earlier, we are planning to provide another briefing that outlines the planned figures within the context of the new entities' framework in January or February prior to the EGM. While Device Co. and Infra Co. will be formed, both will have significantly different business cycles. In the case of Infra Co., we are currently making investments in renewable energy area, but it may not produce results right away. Some will produce results after 2025 or 2030. I will explain this as well. As for the Device Co. we are forging ahead with a plan, which involves a cycle in which a sizeable investment is made and a quick return is produced. We hope to provide an opportunity to explain the details of this to our shareholders as soon as possible.

Overseas Investor E

That will be before the EGM?

Satoshi Tsunakawa (Translation)

Yes, before the EGM.

Overseas Investor B

The SRC letter mentioned that private equity firms have received the mid-term business plan projections. Were the revenue and operating profit guidance for fiscal year 2023 presented similar to what we were presented as shareholders on Friday Nov. 12?

Paul Brough

Yes.

Overseas Investor B

Great, thanks.

Overseas Investor F

In the appendix with the seven pillars, one of the possibilities was repurchases of shares, and given how much is changing, I was curious if the Company will be able to do that or if it might be enclosed period. Is that something that you could help us better understand, the limitations that the Company might face in repurchasing shares, if any.

Satoshi Tsunakawa (Translation)

As announced on last Friday, we are projecting that returns, including share buy-backs, on the scale of about 100 billion yen should be possible over the next two years.

As for the shareholder return policy after that, after the new entities are formed, the shareholder return policy that is in-line with the business cycle and the business environment will be set for each entity.

Overseas Investor F

I just wanted to make sure because sometimes companies when they're undergoing significant transformation are unable to repurchase shares because of MNPI or something like that. But this is helpful, I understand the intention.

Overseas Investor C

I understand that this might be a referendum on some of the Directors continuing with the Company post EGM if the Plan is voted down. Any idea of how many of the Directors feel that way?

Satoshi Tsunakawa (Translation)

What to ask shareholders to vote on at the EGM has not been finalized. I think one option is for all Directors to resign and offer themselves for re-election and to ask shareholders for a vote on the Board slate. While listening to the feedback of shareholders, we will finalize the most acceptable contents of the Plan, including the Directors' continuation.

Domestic Investor G (Translation)

Business operations are going to be spun-off into two entities, Device Co. and Infra Co. Please reiterate why the split into these two entities, not three or five. It was mentioned that growth strategies were missing. I understand extremely well that a split should be made here, given that the timeframes for investments are completely different for Device Co. and Infra Co. But, put another way, it would appear that the Infra Co. is made up of leftovers that were not incorporated into Device Co. Also, I think Infra Co. has a complex structure because it will still have the five major operations of energy, infrastructure, buildings, digital, and batteries. Please outline the justification for splitting into two entities instead of five.

Satoshi Tsunakawa (Translation)

The split into two is because the business cycles, investment speeds, customers, and processes are different. We are working to digitize the respective energy business and infrastructure business, and we are calling this the Cyber-Physical System in the Toshiba Next Plan. We are planning to grow the businesses by connecting hardware and software and keeping things interconnected. We have and will continue to review our portfolio. As previously pointed out, we continue to analyze whether there will be synergy and whether there are any non-core businesses. And we will continue to study divestitures of businesses that have been identified as non-core. We grouped the businesses into one because we wanted to consolidate the elements where synergies are present at the respective businesses and connect them to the service business.

Domestic Investor G (Translation)

My understanding is that Toshiba plans to continue studying the core and non-core business of its infrastructure service business. Should it be our understanding that the portfolio review will be done by shareholders' approval of the Separation Plan at the EGM, and that a business framework that the Board of Directors believes is the best one will start at that point? Or, are the paring of businesses, the withdrawal from certain domains and divestitures, going to occur after the spin-off? Please outline the timeframe.

Satoshi Tsunakawa (Translation)

We are conducting such studies on a daily basis. It might be possible that something will happen next month. Anyway, we will take actions before the completion of the spin-off, not after this.

Jerry Black

I just would like to comment from the SRC's perspective. I think the best way to answer is to give you a better flavor of the SRC process. We had multiple briefings from each of the businesses, and from the executives on their businesses and their opportunities. We also had multiple briefings on R&D from the R&D people and on where CAPEX was going to be required. We also had outside services evaluate the competitiveness of Toshiba's technologies against the market and market standing, as well as assessment of the macro growth and the growth opportunities domestically and internationally. When it came to the Infrastructure business, we see a tremendous opportunity where we're going to need to develop more vertically integrated digital solutions and infrastructure as a service. We believe it is one of our big growth opportunities. That's why we've put them together, but on the other hand, we now have a good starting point of understanding where each of them are positioned and what needs to be done. As Paul mentioned earlier, this is the beginning of the process not the end, so we will continue with a focus on the portfolio and what's the best way to grow and what's the best return on investment capital for each of those businesses.

Moderator (Translation)

The Secretariat now has responses to questions that we received in advance.

Q1. Will the head office function such as R&D division be split between the two companies? Won't the dispersion of R&D through this spin-off weaken new technology development capabilities, etc.?

A1. Basically, R&D and staff functions will be transferred to the new companies. We will identify those assets which can be used by both companies, such as basic research, IP, and production technology, and they will be mutually accessible.

Q2. Who will be responsible for taking the lead in execution of the Separation Plan?

It seems like the SRC recommended the Separation Plan, and that the process will move forward with the SRC taking the lead. Is management really happy with this Plan?

A2. This spin-off plan is not an end. It is a beginning. It is a beginning to the next step in Toshiba's evolution, so our current management team, executives, SRC members, and board of directors will take responsibility and work toward completing the spin-off. We are changing the structure of even the SRC. As for SRC members, after approval at the EGM, we will change the name and establish a new steering committee, and it will provide solid support to the executive team.

Satoshi Tsunakawa (Translation)

Thank you very much for joining us today. This plan was decided after extremely deep discussion with SRC members, the board of directors and the executive team on a weekly basis. We prioritized transparency. We are also receiving comments from our shareholders asking us whether we are truly going through with this. As such, a report was compiled by the SRC, and posted on the Toshiba webpage. We concluded that the spin-off plan is the best way to enhance value for our shareholders. There was discussion of making the company private. As stated in the SRC Report, after a first round, second round, and third round of deep talks, we came to the conclusion that the spin-off plan offered more certainty because there are limits to precise valuation and there are uncertainties as well as many regulations. The two-year period to the spin-offs is a long time, so we will be working to shorten the timeframe, but we believe that this is the best plan for enhancing value for our shareholders, even in terms of certainty. The business plans of the new companies will be announced prior to the EGM. We would be delighted if you could take this into account and approve our plan. Thank you very much.

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