

Disclaimer:

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## **Toshiba Corporation - Meeting between directors and a group of investors**

### **Q&A Session**

**(August 16, 2021)**

#### **Domestic Investor A:**

(Translation)

I understand the Mid-term plan will be announced at the end of October, but without a new CEO, who is committing to pursuing this Mid-term Plan? I think the general view of investors is that the new CEO should be selected before developing the Mid-term plan. Mr. Tsunakawa, are you going to commit to executing this plan as CEO in the next three years, until the end of the new Mid-term plan, rather than serve as an interim CEO, or will you and the new CEO will commit to executing it together?

#### **Satoshi Tsunakawa:**

(Translation)

Right now, we are planning to announce our Mid-term plan in October. Let me explain why we are concerned with this timeline. We are told in our engagement with our shareholders that in order to regain confidence, we have to announce a new plan or strategy as soon as possible that aims at increasing Toshiba's corporate value. Therefore, the Board and the management are prioritizing the development of the new Mid-term plan as the highest priority. In other words, we are reviewing our portfolio in a speedy manner, and we believe that we should work on these matters and take actions as soon as possible.

We are now engaged in dialogue with our shareholders and other stakeholders, and we believe that our stakeholders will be convinced with the plan. Now, we are also developing a succession plan for the new CEO, and we believe that the new plan will be strong enough convincing to the new CEO. Internally and externally, we are broadly searching for candidates for the new CEO as part of the succession plan. If the new CEO is to be selected from internal candidates, I think there should not be any cause for your concern because we are now discussing the development of the Mid-term plan with executives. Even if the new CEO is selected from outside, as we believe that the new plan will reflect the opinions from our shareholders, we think neither should there be any cause for your concern.

#### **Overseas Investor B:**

This is a question about the Strategic Review Committee or SRC. Perhaps you can discuss how much input the internal staff are having in terms of formulating the strategy. How much of the

input is coming from investors, from the SRC itself and the advisors?

**Paul Brough:**

Since the SRC was formed on June 25, it has met at least weekly and we have had a number of ad-hoc meetings in-between. I am working on this matter full-time, as are some of my colleagues, so I can confirm that this is a real committee and that the committee is very much engaged with the process. The strategic plan is being developed by the management. The SRC has an independent secretariat which helps it gather information and directs what it requires from the management. The SRC is also supported by UBS, and consultants.

One of the exercises that we carried out prior to the SRC sitting was an independent, non-attributable investor survey conducted by Makinson Cowell of 25-30 shareholders and investors. Specific questions were asked about what the new Mid-term plan should include and not include, the timeline that they were looking for, and a number of other issues connected to Toshiba. We have taken those views and comments into account and have tried to build that into our assessment of the company strategy.

I think it is fair to say that the SRC is receiving plenty of advice, both solicited and unsolicited. I am speaking to shareholders all the time. The advice we are getting comes from a broad section and it is often at odds with each other, so the main role of the directors is to discharge their duties according to the law, which is to seek ways to maximize the value of Toshiba rather than follow the requests or, indeed, instructions of a particular shareholder or shareholders. We are trying to do the best for shareholders and the company as a whole.

**Overseas Investor C:**

I would like to ask, when can we expect a decision to be made on some of the listed subsidiaries of Toshiba – for example, Toshiba TEC – or should we wait for the Mid-term plan?

**Paul Brough:**

I would just like to say that the approach taken by the SRC and the Board and its advisors is an all-encompassing one. We are reviewing each of the 20 business units, unit-by-unit, and as I think we have previously stated, we are beginning to take a view as to which businesses should be regarded as “core businesses” – that is to be retained and to create long-term value for shareholders – and which businesses may be defocused. At the appropriate time, which is not now, we may make some decisions with regard to both listed and unlisted subsidiaries on whether there is a question of more focus or less focus, but at the moment, it is premature to make those judgements and to make any announcement with regard to particular subsidiaries.

**Overseas Investor D:**

My main question is about operations. The company is focused on identifying candidates for the Chairperson and for the CEO positions, and trying to address corporate governance issues and to enhance value. In the meantime, when we look at the competitive landscape, we are noticing that in certain businesses, whether it is energy-related or infrastructure-related, competitors are taking opportunities while Toshiba is busy with something else. Competitors are coming in and securing a better market share, they are consolidating their position, they are acquiring other companies, and they are taking on contracts which Toshiba could have.

It has already been going on in the form of restructuring a new mid-term plan for the last many years. The longer it goes, the more difficult it will make to create and even salvage shareholder value. Is your middle-level management completely engaged with decision-making at this juncture?

**Satoshi Tsunakawa:**

(Translation)

Things that we are currently addressing are mostly pertaining to the senior management and the Board structure, and so forth. Regarding our competitive landscape at this moment, our frontline teams operating businesses,—such as R&D, sales and marketing, and service and maintenance, are concentrating on their own duties and missions of their own business. Therefore, such frontline teams are segregated from all these challenges in regard to the appointment and selection of a new CEO, as well as the Board structure. As such, they are concentrated on their day-to-day missions and dedicated to winning contracts and carrying out other business activities.

We are reviewing the new Mid-term plan and discussing the restructuring of the portfolio and the capital allocation. However, as we succeed the concept of the Toshiba Next Plan, our business principles are unchanged. Therefore, mid-level managers are able to focus on their own business.

**Overseas Investor D:**

The second part is not exactly a question. It is just a comment. Maybe in your company, people are very focused – even the mid-level management is very focused on their operations and the tasks they have been given – but normally in such circumstances, employees tend to lack motivation. That is an easy opportunity for competitors to come in and take away people, which is not easy in Japan, but in general. They take away some of the most talented people, but also the contracts and other things, so it would be great if the company can move with some urgency going forward. That is the hope that we have.

**Satoshi Tsunakawa:**

(Translation)

Thank you for your suggestions.

**Overseas Investor E:**

I wanted to check with regard to the Kioxia IPO. I appreciate that you are not entirely in the driving seat with that one. There has been quite a lot of volatility in that space. I think there is quite a lot of debate on how long that memory cycle is going to be, particularly with respect to NAND, which is clearly your focus. I know that you had the same question at the results call and that you were able to confirm the process is still on track on Kioxia's side at that point.

With the continued volatility, I just wanted to get a sense of how you think about your walk-away price level or what your plan B might be. Does it continue to be a fairly focused view that this IPO will happen this time around irrespective of what market conditions may or may not look like, or alternatively, given what you can see currently, you will continue to be very confident that the IPO can go ahead in September which I think was the timeframe that was last communicated? We are getting very close to that.

**Satoshi Tsunakawa:**

(Translation)

We are not in a position to comment since this is a plan contemplated by Kioxia and Bain Capital. We would like to support the IPO, and the policy to sell our stake if such IPO happens remains unchanged.

**Overseas Investor E:**

I do appreciate that this is not a process driven by Toshiba. I just wondered, as a major shareholder, if you have anything that you are able to communicate to your own shareholders about what you think your walk-away could be or might be. I am not talking about specific numbers obviously, but just in terms of thinking of how you might participate and what amount of selling you might consider. Any color on that? Again, I appreciate that you cannot give specific numbers, and you will not be able to, but just in terms of if the market condition is not favorable to a certain extent, would you, as a shareholder, consider distancing yourself from that IPO or not?

**Satoshi Tsunakawa:**

(Translation)

Regarding your question, nothing has been decided at this point. Therefore, when something happens, then we will decide. I am sorry, but I have no further comments on your question at this

moment.

**Domestic Investor F:**

(Translation)

I have a question regarding the corporate culture. For a long time, from the previous accounting scandal to the recent issues, it has been pointed out that Toshiba's corporate culture has serious problems in many points with regard to general communications between the management and the front lines and the chain of command. For example, taking into account the issue in relation to communication that is under investigation, we suspect that the company may move forward without much debate as to whether or not the one-way communication from top to bottom is appropriate, even if the CEO changes.

To dispel such concern, could you tell us what kind of discussions are being held at the SRC or the Board in terms of the selection of the new CEO and other Directors?

**Satoshi Tsunakawa:**

(Translation)

I will be answering first, and if other directors would like to add on, then we would like to invite other directors to say something on top of that. It has been said Toshiba has problems with the corporate culture, such as the keep-silence culture and the one-way communications from top to bottom. However, since I came back as the CEO and started discussing the Mid-term plan with the Board of Directors and the SRC, I do not think there is any problem with the current corporate culture, in which people can discuss and state opinions liberally for the company, without any hesitation.

I understand selecting the new CEO is a matter for the Nomination Committee. Nevertheless, I believe that one of the key factors for selecting the new CEO will be understanding the importance of an open corporate culture in which people can state opinions without hesitation.

If someone of the Outside directors has anything, I would like to ask them to answer.

**Jerry Black:**

I would like to add to that comment. My perspective is that we understand that the change in the Chairperson and the change in the CEO, and all the media reports and the media coverage at Toshiba clearly impact the concerns among the employees on the future of Toshiba and so forth. Pre-COVID-19, we made a lot of time and effort to visit factories and R&D and trade shows and to talk to our people, and then post-COVID-19, we typically communicate to the employees through the integrated report. I think this time, we are doing something a little bit different. We are actually recording video messages to be sent to each of the employees on each of the board

members' backgrounds, personal feelings, and what we think about the company going forward, so we are trying to improve the communication directly to the people.

I also think the culture of the discussions among the SRC and the board meetings, and the presentations with management has improved in terms of transparency. It has also improved in terms of creating constructive tension on the discussions on the business plans between the SRC and the managers who are doing the presentations, so I think it is improving in terms of transparency and constructive tension.

I think it is improving in terms of the board members creating a channel to communicate to the employees in terms of helping them understand that we think Toshiba is a great company with great assets and great people and lots of value, but that we also openly admit that we are working very hard to restore the lost trust that we created among our shareholders. I think the employees do understand that we have a lot to do to restore shareholder trust, and we are trying to help them understand that we are working very hard to do that. We are communicating directly in that way.

**Katsunori Hashimoto:**

(Translation)

I was appointed on June 25, so it has been only less than two months. As Mr. Black said, because of the COVID-19, it is difficult to have a direct interaction with employees, but as Mr. Black said, we are communicating with employees through internal newsletters and video messages from the newly-appointed Directors.

I have sent a message that we are not living in the era of being too concerned about ranking, seniority, and consensus. We need to create environment where what is good should be communicated as good, what is bad should be communicated as bad, and we should be able to engage in a logical discussion.

We would like to achieve the safe and secure life of employees without any concerns and worries, and working environment which enables employees to sympathize mutually and can feel self-fulfillment.

We would like to see the result of the Governance Enhancement Committee's assessment before we judge how our corporate culture influenced the current issues. There will be interviews with the senior management by the Committee. You gave us good aspects that we could also seek a part of corporate culture in the investigation activities of the Governance Enhancement Committee, and I would like to suggest to the members of the Committee to review from such aspect.

**Overseas Investor G:**

My question is posed to the Board, including the independent Directors, and to Mr. Tsunakawa. On the Board statement regarding the SRC, it says that you would contemplate potential offers for the company as well. I was just curious as to how you realistically can find out whether or not there is a potential for an offer for the entirety of the company, given, I would assume, there would be natural hesitation from many of the potential interested bidders on making a hostile bid in Japan, given the supposed sensitive nature of some of your assets. How do you realistically contemplate whether or not there are realistically offers out there without starting a formal process? I was just curious as to what your thoughts were on that.

The other question I had was, in the relationship between the Board and current management, if a strategic company or financial fund were interested in certain assets of the company or the entirety of the business, who should they approach, and how is the information shared between the Board and management if such approaches were made? Is there any discouragement from the management or otherwise towards making offers as such?

**Paul Brough:**

As I have explained to a number of shareholders individually, and as I think the Makinson Cowell survey has identified, strategic planning at Toshiba is not easy, particularly given the timeframe we are working to now, but also given the geographic spread of Toshiba's operations, the variety of the businesses it is in, and the regulatory constraints that we may or may not face in certain of our businesses to a greater or lesser degree, but we are trying to map out our strategy as quickly as we can and currently hope to complete this sometime in October. Those very complexities are, I think, one of the main reasons why financial bidders hesitate to step forward and engage with the company, as you said, perhaps on a hostile basis, but maybe on a friendly basis, too.

However, it is fair to say that I am engaged and the SRC is engaged with financial investors, and we are in discussions with them. We have talked through some of those challenges with them on how they intend to address them, but talking to financial investors is just only one element of the all-encompassing strategic review that we are undertaking. The cornerstone of the strategic review is a review of our portfolio. That may, indeed, lead to strategic investors making inquiries with regard to individual businesses as well. I have made it clear that we are open to people contacting us. We also have our own outreach program, so I am satisfied that the work is being done.

As far as whether those inquiries come to myself or, more likely, to Mr. Tsunakawa, Mr. Tsunakawa and I have committed to open dialogue and to the sharing of information. Since he became Chairperson, it has worked very well, indeed, as far as I am concerned. There are good examples of that communication taking place for the good of the company. Naturally, there is a healthy

tension between management and the Board and possibly our shareholders, but that is what the SRC is meant to deal with, and so far I think it is operating effectively.

**Overseas Investor G:**

What is the hesitation on formally opening a data room? I guess some of the concerns that people may have might be if you can actually figure out if that is a decent viable option versus continuing to be listed and creating value through figuring out what is core and what is non-core?

**Paul Brough:**

I think, as you can see, Toshiba is a listed company, it has already got a listed subsidiary, and indeed, proposals have been made for our business in the past, so we do not see the need to open a data room now because much of the information about Toshiba is available already in the public markets as a listed company and we believe it is possible for people to come forward to make proposals to us. Our businesses are well-described in the public domain.

Meanwhile, we are making preparations so that if we deem it necessary in the future, we can act promptly. We understand that one of the factors for foreign investors in making buyout proposals are the regulations in Japan. In our discussions with investors, we have talked about that. We have also carried out our own internal review of those difficulties. I do not see the need at the moment to open a data room because that is just one stream that we are looking at. We are also developing other plans as well, but when the time is appropriate, that information should be available.

**Overseas Investor G:**

Is there a date when the strategic review will be concluded? Is there a date that you are aiming for to come to a conclusion? Also, based on what you were saying earlier, the current Board, as well as the SRC and management, is completely open to somebody making a legitimate offer for the entirety of the company, and you would be open to providing all the information that would be necessary to make it a definitive agreement?

**Paul Brough:**

As we announced on June 25 and July 30, the SRC is considering and discussing a wide range of initiatives. We are looking at the management plan, and we are exploring other plans as well. I do not want to speculate as to whether somebody would come forward and make some kind of proposal, but we have already said that we are open to people coming forward, whether they are strategic investors, whether they are financial investors, or whether they have any other proposals for us. We will consider proposals from all credible parties.

What is important is, if we get a proposal for either a subsidiary or part of the business or, indeed,

the entire business, we can properly evaluate that, which is part of the reason why we are doing the strategic review, because we need to know what we think, under our plan, this business is worth compared to any other proposal we may have for the business or its subsidiaries, so there is a question of sequencing here. We have another couple of months before the strategic review is complete. We hope to give an indication to our shareholders in October.

If somebody does come forward, then we will engage with them. Indeed, we have already engaged with people who have made what could be described as possibly inquiries or courtesy calls to us to try to understand the landscape in which we are doing this review and our receptiveness to further discussions. That is all I can really say at the moment.

**Jerry Black:**

Let me clarify a couple of things to add to what Paul said. In the SRC, the process that we are going through in each of the businesses is having their own opportunities to present their business plans to the committee, and we are looking at it from the perspective of capital allocation, ROIC, opportunity for growth, and positioning. We are getting external opinions from consultants and other people about the positioning of the business and the competitive advantage that Toshiba may or may not have, so we can understand the viability of the business. We are conducting a pretty thorough portfolio review from that perspective.

We believe that the information that we are gathering now, in addition to the information that we are getting from both financial advisors as well as other potential investors and so forth, is not a waste of energy or a wasted effort. Those are things that we will have to collect if we ever wanted to create a data room in the future.

The second point that I would like to clarify is, if a bona fide or specific offer should come to Toshiba, either through the Board or through the CEO, the actual evaluation of that offer would be a separate independent process from the SRC.

**Domestic Investor H:**

(Translation)

I would like to ask a question to Mr. Hashimoto. Since your appointment to the Board, you are running the Audit Committee with a very small number of members. What are your priorities in the committee? There are some points that you can compromise or cannot compromise. What is the timeline for what you would like to accomplish first in the Audit Committee? If you have any idea, please elaborate.

**Katsunori Hashimoto:**

(Translation)

We are working on listing candidates of two additional Audit Committee members. We have received the long list of candidates. With the next three or four screening processes, we would like to finalize the candidate to be proposed to the EGM. We would like to add two members and the expected criteria for one member is a person who comes from an operating company and who has an expertise in internal control and that for the other member is a person who has the Japanese CPA and experiences in accounting area.

Ms. Watahiki and I are pursuing our duties as usual, as the Audit Committee members. My personal opinion is committee and organizational structures are relatively well-established, although I have been in my position for only less than two months. But it takes more time to observe whether these structures are functioning well or not and the mindset of the employees. Then I would like to ask for an implementation of some measures if necessary.

My belief is that there should be zero tolerance against any unlawful or inappropriate things. To be honest, at the beginning, I thought that zero tolerance would not be achievable as Toshiba is comprised of 120,000 employees. However, when I think about the minimum size of the business unit, it maybe consists of 10 people. It may differ from each business, but one division consists from multiple numbers of these 10/20/30 people units. It is important that each of these smallest unit achieve zero tolerance and the leaders and the members of the units truly commit to the zero tolerance policy. Zero plus zero equals zero.

To achieve this for 120,000 people, we have to have all employees to pursue zero tolerance and the leaders to show the initiatives. As I have met many good leaders in Toshiba, I presume tone at the top maybe well-influenced in the company.

However, there are so many layers up to the frontlines in such large organization, so I need more time to assess whether "zero tolerance-tone at the top" is cascaded down to the frontline or not.

**Domestic Investor H:**

(Translation)

Is there anything that you think that it is necessary to change immediately?

**Katsunori Hashimoto:**

(Translation)

I personally do not recognize the immediate need for major changes, such as establishing a new committee or other organizational change.

**Overseas Investor I:**

When you consider the menu of options that are available to you to improve shareholder value and to improve the focus of your business, within that menu of options, how much consideration are you giving to Japan's recently-passed legislation on tax-free spin-offs? Using this legislation to spin-off existing businesses you have to your existing Toshiba shareholders is tax-free. Is that something you are actively discussing and considering? The elevator business would be one that I would think could be a candidate for this type of potential transaction.

**Paul Brough:**

The question was, have we considered changes in Japanese tax regulations with regard to the advantages of tax-free spin-offs? The answer to that is yes, and the SRC has been taking advice with regard to that. Indeed, when we have been looking at various options available to us, whether they are possibly trade sales or possibly other ways of monetizing assets, yes, we have been considering the benefits of tax-free spin-offs where there are applicable, given the size of the business or the sector in which it operates. That is without any reference to particular subsidiaries, but yes, we are considering that at the moment.

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