



TOSHIBA

Maximizing Value for Toshiba Shareholders

Toshiba Corporation
2021.2

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Summary of Shareholders' Proposal and Toshiba's Opinion

Toshiba Board of Directors' Opinions on Effissimo's Shareholder Proposal

Toshiba's board of directors unanimously¹ voted against the proposal to appoint investigators on whether last year's general meeting of shareholders was fairly conducted

01

Regarding the "Pressure Issue", the details of the suspicion and the grounds thereof are not clearly disclosed by Effissimo

02

No material or information which would require additional investigation was discovered on the audit committee's review

03

The audit committee also inquired to certain "Large Shareholder", but no specific information was provided by such shareholder. No other shareholders have reported any undue pressure whatsoever

04

The Voting Rights Counting Issue is an issue relating to work for which the Shareholder Registration Agent and the Post Office were responsible. The audit committee evaluated appropriateness of the process and procedures adopted by the Shareholder Registration Agent in its investigation and the results thereof, and has conducted investigation to the fullest extent possible

05

Conducting an unnecessary investigation would create situation where it is hard to concentrate on the day-to-day business operations and cause a significant impact on the management of Toshiba

There is no validity or reasonable grounds to further investigate by electing investigators in terms of the time and the disruption of Toshiba's business operations, as well as the additional cost, because no material or information, that would lead to a conclusion that further investigation by the Company with respect to those issues is required, has been discovered

^{*1} Excluding directors who refrained from voting in light of applicable laws.

Toshiba Board of Directors' Opinions on Farallon's¹ Shareholder Proposal

Toshiba's board of directors unanimously² voted against the proposal to amend the articles of incorporation in relation to capital policy initiatives

01

The board of directors adamantly opposes proposals which would prevent Toshiba's medium-to-long-term enterprise value creation

02

The proposed amendment to the articles of incorporation requiring that all operating cash flows be returned to shareholders over the next 5 years is an unrealistic proposal which would significantly limit management discretion and hinder the realization of the "Toshiba Next Plan"

03

The board of directors requires some degree of discretion relating to capital allocation it has a duty to execute the optimal and sustainable growth strategy and capital policy

04

The "Toshiba Next Plan" is being implemented as planned, and no changes have been made to the policies announced to date

05

The board of directors will periodically review the appropriate capital level, and the policy of returning any excess above that level to shareholders will continue

*1 Represents Chinook Holdings Ltd which delegates its asset management to Farallon Capital Management LLC.

*2 Excluding directors who refrained from voting in light of applicable laws.

Effissimo's Proposal: Election of Investigators

Effissimo's Assertions

- 1
- ✓ Some shareholders did not exercise its voting rights due to undue pressure

- 2
- ✓ In response to our explanation regarding "1,139 ballots received through the day before the 181st AGM were not counted as valid votes": "several abnormal facts related to the tallying of votes that cannot be resolved solely by the explanation provided"

Toshiba's Opinion (Against)

- ✓ While Toshiba requested the Demanding Shareholders to disclose the details of the suspicion and the grounds thereof, the Demanding Shareholders have not made such points clear
- ✓ Following the request from the Demanding Shareholder, Toshiba Audit Committee engaged an outside law firm to investigate necessary portions of the claim. As a result, no materials or information which would lead to a conclusion that further investigation with respect to those issues is required, has been discovered
- ✓ Audit Committee wrote to the Large Shareholder to ask whether or not it has been the subject of any undue pressure in relation to the exercise of its voting rights at the AGM that Toshiba had taken part in, but the Large Shareholder did not provide any specific information as to whether or not there has been any undue pressure that Toshiba had taken part in. No other shareholders have reported any undue pressure whatsoever
- ✓ There is no validity or reasonable grounds to further investigate this issue without suspicion in terms of the time and the disruption of the Company's business operations, as well as the additional cost as it would give rise to concern that such investigation would create a situation where it is difficult to focus concentrate on the day-to-day business operations and cause a significant impact on the management of the Company
- ✓ The Voting Rights Counting Issue relates to tasks which Toshiba is not involved (SMTB was responsible for counting voting rights and Japan Post was responsible for handling the mailing)
- ✓ No specific facts have been presented with respect to "abnormal facts...that cannot be resolved solely by the explanation provided" that would lead to a conclusion that further investigation by Toshiba is required
- ✓ The Audit Committee evaluated appropriateness of the process and procedures adopted by Transfer Agent and Shareholder Registration in its investigation of the issue and the results thereof, and has investigated to the fullest extent possible
- ✓ The Voting Rights Counting Issue is not something to be investigated via Toshiba establishing a third-party committee or appointing investigators
- ✓ We plan to implement measures towards appropriate voting rights counting in future shareholder meetings, by encouraging online voting

Regarding both of the two issues above, if the legitimacy of the resolution is the issue, there is no legal necessity to investigate the fact because a suit must be filed within 3 months after any resolution involving violations of the law and regulations or articles of incorporation or "grossly unfair" convention procedures or resolution methods (Article 831, paragraph 1 of the Companies Act), and it has now become unable to revoke the resolution.

Farallon's Proposal: Capital Allocation (1/2)

Farallon's Assertions

1

- ✓ In "Toshiba Next Plan Progress report" on November 11, 2020, there was a significant change in the capital policy and growth strategy published in previous Toshiba Next Plan

2

- ✓ Sudden announcement of plans to implement M&A in the amount of JPY 1tn

3

- ✓ Toshiba should commit to shareholder returns by providing specific figures

Toshiba's Opinion (Against)

- ✓ No changes have been made to the policies since the formulation of the "Toshiba Next Plan"
- ✓ In addition, Toshiba has been appropriately fulfilling its responsibility to shareholders by providing progress reports at regular intervals regarding the growth strategy and capital policy it presented in the "Toshiba Next Plan."
- ✓ We have no plan to conduct major M&A amounting JPY 1tn , and there are no changes to our strategy of pursuing organic growth and that the M&A will be centered on programmatic M&A
- ✓ M&A-related investments and borrowings need to be reviewed flexibly depending on the timing of execution and the prevailing operating environment at the time, which may differ from current expectations. We therefore believe it is irresponsible to announce and commit to specific shareholder returns for the future based on current estimates; the responsibility of the management team is to present an outline of a policy relating to shareholder returns
- ✓ While we will continue to use capital in excess of the appropriate level of capital to provide shareholder returns, we have no plans to determine shareholder returns based on cash flows which include borrowings

Farallon's Proposal: Capital Allocation (2/2)

Farallon's Assertions

- 4
- ✓ The articles of incorporation should be amended to include a provision which states that approval must be obtained at the general meeting of shareholders regarding the content of a capital policy proposal

- 5
- ✓ Toshiba should return to shareholders every year the full amount of operating cash flow in the financial statements over the five-year period from April 1, 2021 to March 31, 2026 in the event that the above capital policy proposal is not approved at the general meeting of shareholders

Toshiba's Opinion (Against)

- ✓ Such a provision in the articles of incorporation is not necessary, as Toshiba confirms and reflects shareholder intentions by submitting director election proposals at the ordinary general meeting of shareholders each year and securing the confidence of shareholders
- ✓ Toshiba's executive officers and board of directors engage in active discussions on capital policy, pursuing an optimal balance between growth and returns and is announcing a consistent policy. We plan to maintain transparency by providing progress reports at regular intervals
- ✓ Management requires some degree of discretion relating to capital allocation as it has a duty to execute optimal growth strategy and capital policy amid a constantly changing operating environment
- ✓ **Farallon's assertion to apply entire amount of generated operating cash flows to shareholder returns will completely destroy all seeds for medium-to-long-term growth**
- ✓ Again, shareholder returns should be determined based on appropriate level of capital reflecting prevailing and future business risks, instead of simply calculating them based on past operating cash flows

02

Toshiba's Financial Management Policy

Toshiba's Business Model

- After the announcement of the “Toshiba Next Plan” in November 2018, during the period up to June 2020, we outlined the following policies to explain the progress of the plan.
- The content of the November 2020 announcement also aligns with these policies, which remain unchanged.

Outline

- ✓ Strengthen core earning power and focus investments in growth fields

Invested Capital

- ✓ Shift business model from heavy capital to light capital

Financial Management Policy

Growth investment

- ✓ Growth through organic growth and programmatic M&A rather than large-scale M&A

Cost of capital

- ✓ Use debt to finance growth and to optimize the cost of capital. Expand debt within the discipline of Net Debt / Equity 30% and Net Debt / EBITDA 100%

Shareholder return

- ✓ Target average consolidated dividend payout ratio of at least 30%
- ✓ Capital in excess of appropriate level of capital will be used to provide shareholder returns including share repurchase

Kioxia shares

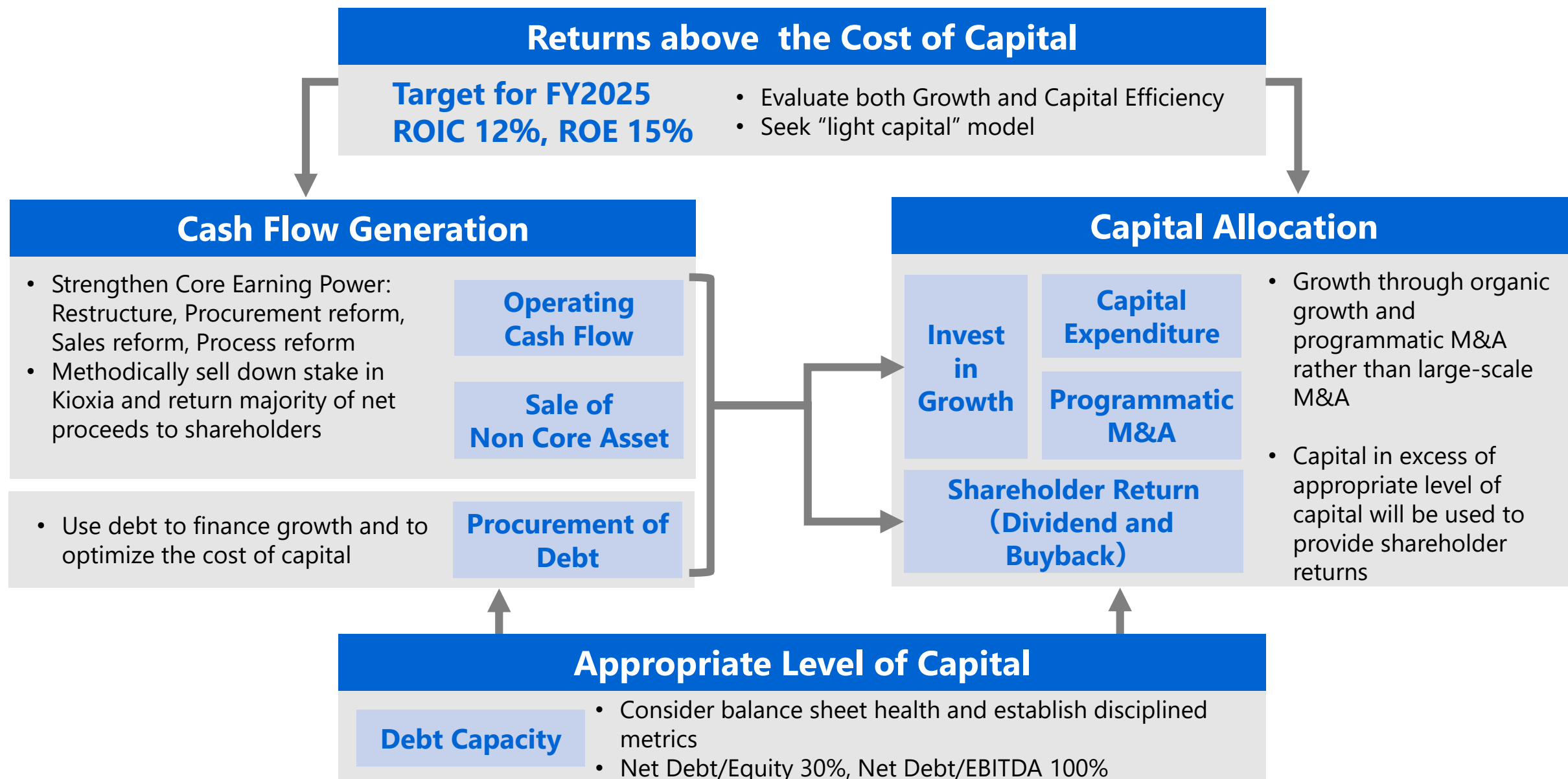
- ✓ Continue to evaluate alternative means to monetizing Kioxia shares, and intend to return a majority of the net proceeds to shareholders

Balancing verification of appropriate capital level and growth investment

In the changing environment, Toshiba is planning to verify appropriate capital level at the constant board meetings and pursue disciplined strategic investment for further growth

- ✓ Capital in excess of the appropriate level of capital will be used to provide shareholder returns. The Board of Directors will verify the appropriate level of capital every year, taking into account growth investments, including certain level of M&A
- ✓ Any growth investments must to meet ROIC/IRR criteria. Strategic investments include shareholder returns based on the verification of the appropriate level of capital and inorganic growth investments which include certain amount of M&A
- ✓ The Board of Directors will review the appropriate level of capital whenever there is a major change in the capital section, such as when an asset sale is realized or an occurrence of event with significant strategic importance
- ✓ We currently believe that our capital is at an appropriate level, and will reevaluate at the end of FY20. The Board of Directors will evaluate it by reviewing the balance sheet, and the business portfolio and business plan including growth investment at that time

Capital Allocation Policy



Dividend Policy

FY20 Dividend

- ✓ Along with the improvement of FY20 net income forecast (for reference only)*¹ (from 50 to 70 billion yen), dividend is revised upward
- ✓ Dividend increased from **40 yen** to **50 yen**

FY21 Dividend Target

- ✓ Target is to **raise dividend** based on the "Toshiba Next Plan" announced in November 2018
- ✓ Plan to decide and announce at the FY20 earnings release

FY22-24 Dividend Target

- ✓ Target **steady and continuous increase** of dividend
- ✓ Plan to present dividend policy when FY22-24 Mid-Term plan is announced

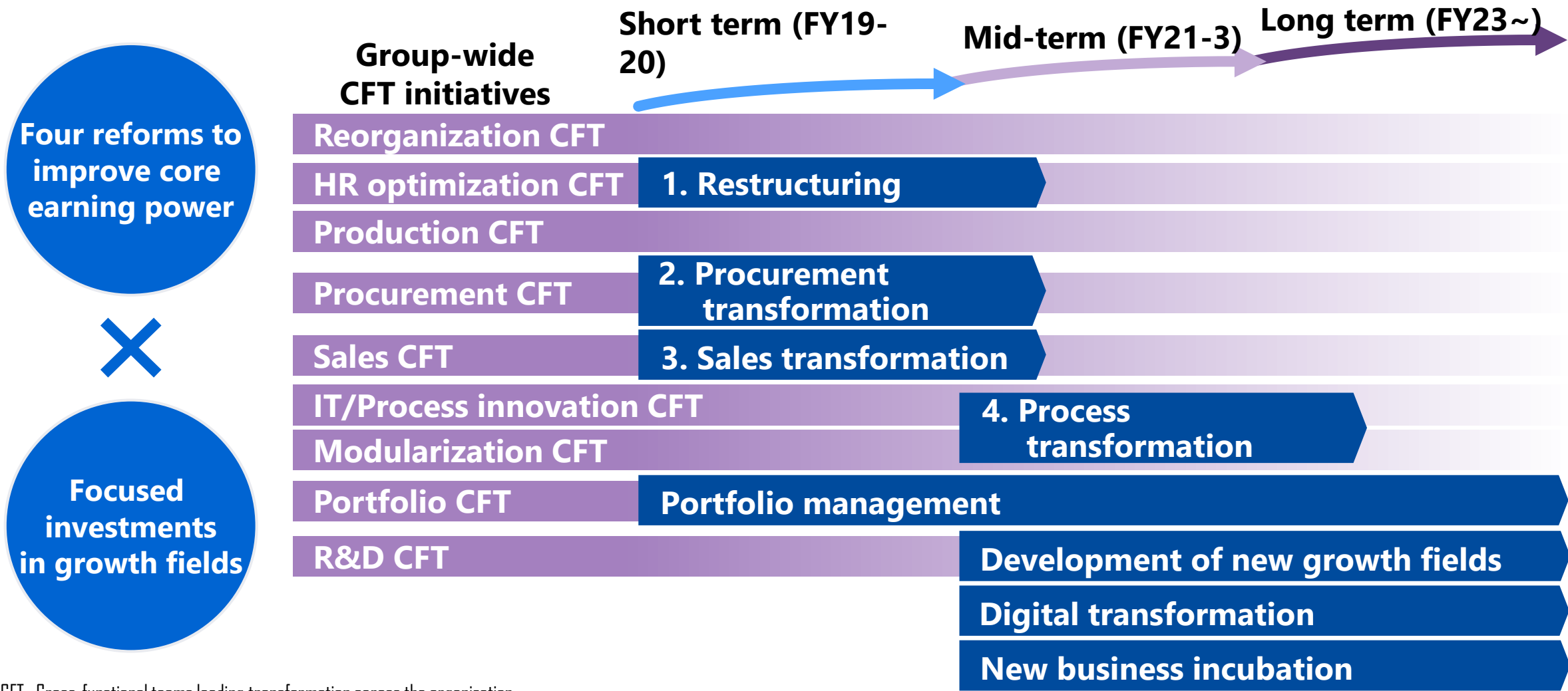
*1 This FY2020 forecast is disclosed for reference only, which includes the actual FY2020/Q1-Q3 equity earnings (losses) and does not include any forecasted equity earnings (losses) of Kioxia.

Appendix A

Supplemental Information of Toshiba's Financial Management Policy

The "Toshiba Next Plan" Overview (Disclosed on Nov 8, 2018)

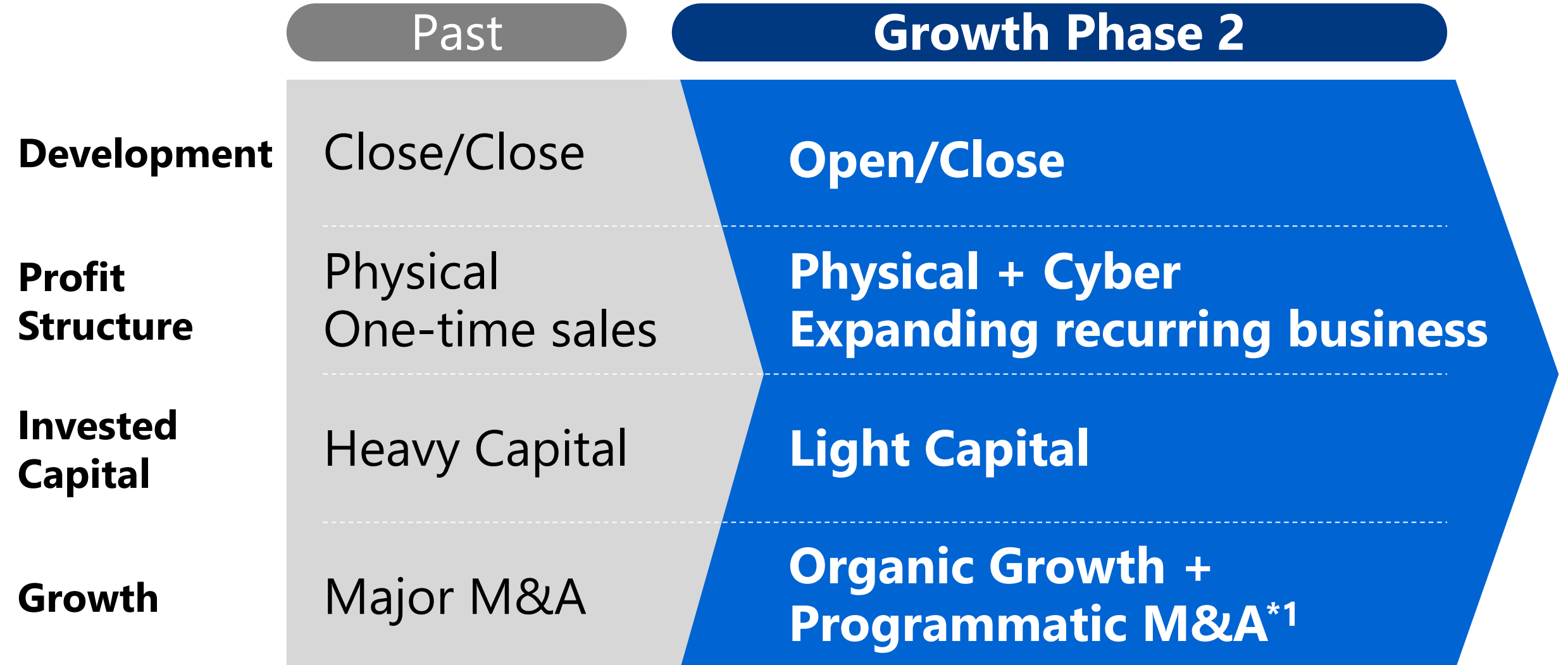
Four reforms to transform core earning power and focused investments in growth field



*CFT : Cross-functional teams leading transformation across the organization

Transformation Towards a CPS Technology Company

(Disclosed on Nov 13, 2019)



*¹ Not major M&A encountered opportunistically, but focused on areas that are adjacent and complementary. Carry out planned, small scale M&A as part of annual business strategy.
60 % of companies with top 100 market cap in past decade (2007-2017) employ this method. (Source: McKinsey & Company)

- ☐ **Decrease cost of capital by using leverage to finance growth**
- ☐ **Limit debt so that net D/E does not exceed 30% and net D/EBITDA does not exceed 100%**
- ☐ **Enhance TSR by pursuing growth**

Shareholder Returns Policy (Disclosed on Jun 22, 2020, 1/2)

Notice Regarding Shareholder Return Policy

TOKYO—Toshiba Corporation (TOKYO: 6502, hereinafter “Toshiba”) has announced today that its board of directors has agreed upon an amended policy for distributions to shareholders (shareholder return policy).

1. Reasons for the amendment

In the five years following the occurrence of the accounting issues which occurred in 2015, Toshiba has divested seven businesses with revenues of JPY 3 trillion (based on the consolidated results of 2014). In the last two years, Toshiba has divested non-core businesses such as its U.S. LNG business and its U.K. nuclear power plant construction project. In addition, during this same two-year period Toshiba has disposed of other non-core assets, such as strategic cross-shareholdings, of approximately JPY 16 billion, subsidiaries for JPY 21 billion, and real estate and related assets worth JPY 29 billion. Furthermore, in late 2019 Toshiba completed a JPY 700 billion share buy-back program using the proceeds gained from the sale of the Memory business.

Regarding Toshiba’s 40.2% holding in KIOXIA, as already announced, Toshiba has no strategic intention to remain in the Memory business. Therefore, Toshiba intends to realize the value of its investment in KIOXIA and continues to evaluate alternative means of monetizing its stake. Once such a monetization event is completed, Toshiba, in principle, intends to return a majority portion of the net proceeds to shareholders.

As part of its continuing efforts to rationalize its business portfolio, Toshiba will seek to further grow the infrastructure service businesses and data services businesses. As for monitored businesses, as previously defined, such as the System LSI business and the Printing business, Toshiba is considering its available options. As for the Printing business, since Toshiba TEC Corporation is a listed subsidiary and Toshiba recognizes the independence of Toshiba TEC’s board and management, Toshiba will continue to closely monitor its recovery plans and progress. Toshiba will discuss the measures necessary to be taken for the Printing business from its position as Toshiba TEC’s shareholder.

Shareholder Returns Policy (Disclosed on Jun 22, 2020, 2/2)

Toshiba views the distribution of profits to shareholders as one of its most important management objectives, and has worked to strengthen returns through various means, including share repurchase programs, while endeavoring to maintain stable dividends in order to maximize medium- to long-term shareholder value. Taking the above into account, and in order to further clarify Toshiba's stance on returning profits to shareholders, Toshiba has made certain amendments to its distribution policy, which are described below.

2. Amendments in shareholder return policy

(Before amendment)

Toshiba intends to maintain an average consolidated dividend payout ratio of at least 30% (*Note), and shareholders' equity in excess of the appropriate level of shareholders' equity will be used to fund shareholder returns, including share repurchases. The appropriate level of capital shall be reviewed by the Board of Directors on a regular basis.

(*Note) For the time being, equity method profit and loss for KIOXIA Holdings Corporation is excluded from Toshiba's policy on shareholder returns.

(After amendment)

Toshiba intends to maintain an average consolidated dividend payout ratio of at least 30% (*Note), and shareholders' equity in excess of the appropriate level of shareholders' equity will be used to provide shareholder returns, including share repurchases. The appropriate level of capital shall be reviewed by the Board of Directors on a regular basis. While Toshiba will focus in the short term on ensuring its financial stability during the unpredictable COVID-19 situation, it is Toshiba's intention in principle, to return the majority of the net proceeds from any KIOXIA divestiture to shareholders. Furthermore, if the external environment stabilizes, enabling capital markets and the global pandemic to be more predictable in the Fall, Toshiba expects to be in a position to undertake more proactive portfolio streamlining and divestures, including the assessment of highly accretive M&A opportunities to continuously improve capital allocation in order to further enhance shareholder returns and the long term value of Toshiba.

(*Note) For the time being, equity method profit and loss for KIOXIA Holdings Corporation is excluded from Toshiba's policy on shareholder returns.

Approach to Growth Investments (Disclosed on Nov 11, 2020)

Established internal ROIC/IRR criteria for strategic investments
Stricter process for selecting investments

Financial Management Policy

- ✓ Dividend payout ratio, appropriate level of capital, debt-equity ratio
→ Maintain policies announced in November 2019 and June 2020

Financial Leverage

- ✓ Expand leverage up to 30% debt-equity ratio and 100% net-debt/EBITDA by FY25
- ✓ Reduce cost of capital and utilize cash for strategic investments.

Strategic Investment

- ✓ Strategic investments include M&As which meet the ROIC and IRR investment criteria.
- ✓ Returns to shareholders will also be considered as a form of strategic investment if there is excess cash.

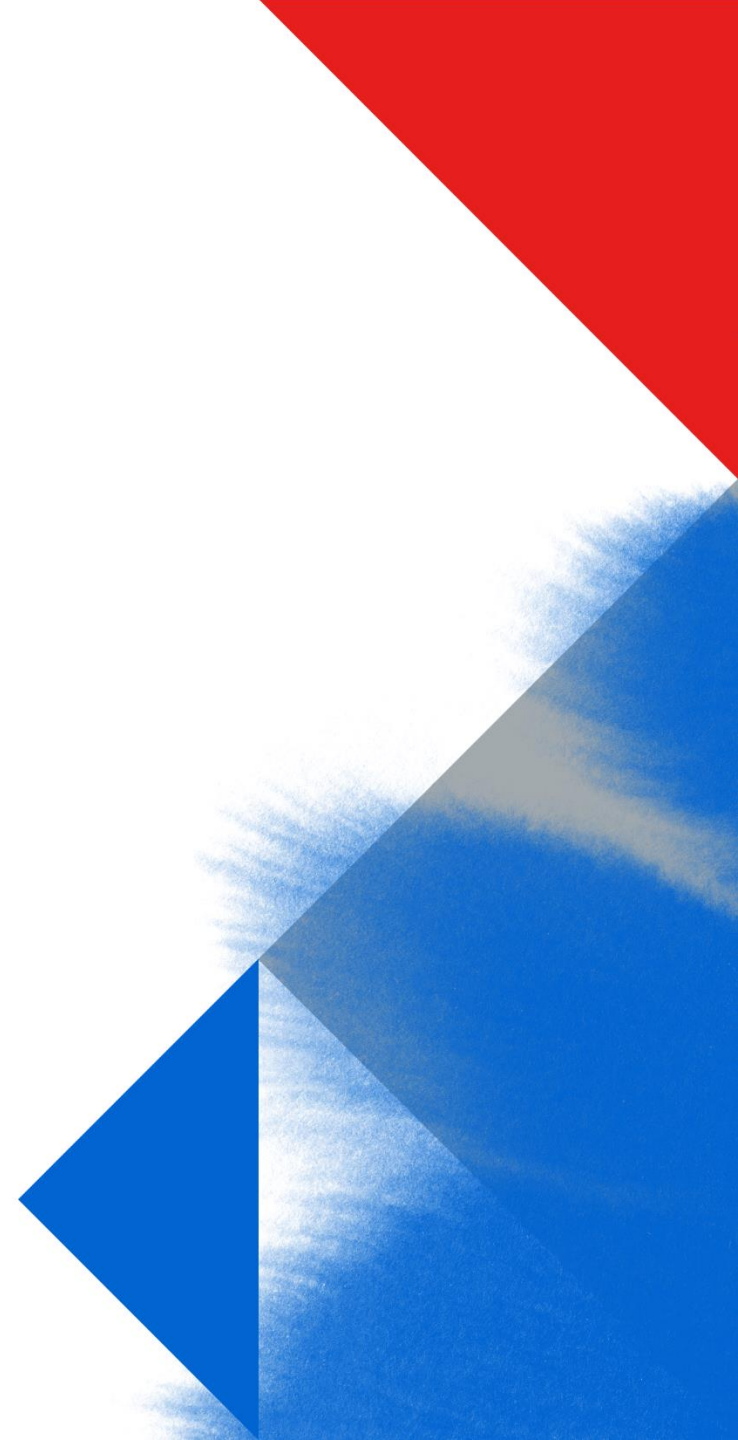
- ☐ **Our basic policy is to maintain an average consolidated dividend payout ratio of at least 30%*¹**
- ☐ **Capital in excess of the appropriate level of capital will be used to provide shareholder returns, including share repurchases**

*1 For the time being, equity-method investment income/losses from Kioxia Corporation are excluded from this policy

**Committed to People,
Committed to the Future.**



**We turn on the promise
of a new day.**



TOSHIBA