ARGYLE STREET MANAGEMENT LIMITED

25 March 2020

Mr. Nobuaki Kurumatani
President and CEO
Toshiba Corporation
1-1, Shibaura 1-chome, Minato-ku,
Tokyo 105-8001,
Japan

Cc: Board of Toshiba Corporation

Dear Mr. Kurumatani,

We send our best regards, and hope that you are well.

Firstly, we would like to thank the investor relations team for the conference call with us on 19th of March 2020. We would also like to thank you for the hard work and leadership that you have provided to Toshiba Corporation ("Toshiba" or the "Company") over the last 20 months or so since your appointment. Clear progress has been made on some important corporate aspects and we believe that you will continue to steer Toshiba in the right direction through these difficult times for global markets. Indeed, the strong support you enjoy from shareholders is clearly evident from the 99.47% votes received for your election as Director at the last AGM. We are hopeful that this strong support will continue.

As was highlighted in your presentation dated 13th November 2019, key restructuring initiatives have been completed, including the sale of the LNG business, NuGen liquidation, reduction of other strategic shareholdings, privatization of listed subsidiaries and early retirement of over a thousand employees.

Some of these restructurings were difficult but necessary, and we are appreciative of your leadership and oversight in this endeavor. We also acknowledge the initiatives to introduce long term incentives based on 3-year relative TSR for executive officers' compensation scheme, which we believe will go a long way towards aligning shareholder interests with management.

Next Plan

We continue to be supportive of the implementation of the Toshiba Next Plan as we have indicated to you before. We note that certain research analysts on the sell-side have suggested that there are no clear market leaders within Toshiba's current portfolio of businesses, and hence no clear driver of future growth. There were also some doubts as to whether Toshiba can meet its targeted financial results, even before the current coronavirus situation. Regardless of the views of the analyst community, we want to reiterate that we are fully supportive of management's plans and intention that all current segments of Toshiba will be expanded as core businesses, and that Toshiba will pursue this through organic growth and programmatic M&A which are focused on areas that are adjacent and complimentary.

We believe that this strategy, together with strict implementation of the ROS 5% rule, capital discipline and commitment to shareholder returns provides a strong platform for long term sustainable corporate growth. Your vision to transform Toshiba into a CPS (Cyber Physical Systems) technology company is an exciting and ambitious vision and as long-term shareholders, we are excited to see this take shape in the coming years.

Given this extremely challenging task ahead of Toshiba, it is imperative that management maintains a laser focus on executing its strategy of developing its current business segments, while maintaining discipline in the corporate aspects mentioned above. We believe further improvements to capital allocation decision making and focus on shareholder returns are necessary to achieve the stated objectives.

To this end, we have a number of proposals that we urge you to seriously consider, which will not only demonstrate commitment to your stated strategies, but we believe will leave Toshiba in a stronger long-term position.

1. Kioxia Holdings

We have noted that the Nikkei Asian Review had on 28th February, published an article on the prospective IPO of Kioxia Holdings which it reported to be targeted to take place in October 2020. The report further stated that "Kioxia, formerly Toshiba Memory, estimates its market valuation to reach 3.5 trillion yen ($31.8 billion) in what is expected to be Japan's biggest initial public offering this year". The reported valuation is a substantially higher than the 2 trillion yen valuation of Toshiba Memory at the time when Toshiba decided to undertake the sale to the consortium led by Bain more than two years ago.

The short holding period and large uplift in valuation has made this an extremely profitable deal for Bain, who according to the news report, are planning a divestiture of its stake though the IPO. This is of course unfortunate from the perspective of Toshiba shareholders. On the other hand, we understand from the investor relations team that Toshiba's management and board are still evaluating the situation and has not yet decided what to do in the event of an IPO of Kioxia Holdings.

In our letter to the board dated 12 March 2018, we had highlighted that the valuation of Toshiba Memory was potentially as high as 3.5 trillion yen. We had further highlighted then that the board should allow the proposed Bain consortium deal to lapse if regulatory approval was not received by transaction deadline (as opposed to extending the deadline), and instead explore other options available to Toshiba. Such options included an IPO of Toshiba Memory or to run another auction process given that Toshiba was no longer in a distressed position following the JPY600 billion share placement in late 2017.

We were disappointed at how the situation with Kioxia Holdings had played out. However, we believe that the current IPO valuation cited by news reports is an attractive valuation, and values Toshiba's 40% stake at as much as JPY 1.4 trillion. We understand current market situation creates uncertainty to the IPO timing and valuation. Nevertheless, given the need for management focus to be on developing its current business segments, we urge the Company to divest its entire position in Kioxia Holdings at the IPO, and to distribute proceeds back to shareholders.

One of the considerations that was explained to us by the investor relations team is the requirement by Japanese regulators for a significant portion of Kioxia Holding's shares to be held by Japanese parties, and that this was one of the reasons that Toshiba had reinvested into Kioxia Holdings from proceeds of its sale of Toshiba Memory. We believe that since Toshiba no longer has management control over Kioxia Holdings, this aspect should not be a factor in management's decision whether to divest or not. Doing otherwise would unnecessarily penalize shareholders.

2. Toshiba TEC

We are interested to better understand how management see's Toshiba TEC fitting into its strategy going forward, given that management had decided not to privatize Toshiba TEC alongside some of its other listed subsidiaries.

We note that Toshiba TEC's printer business companies to struggle for profitability, while its POS business would surely fall under the purview of the ROS 5% rule. We continue to be of the view that Toshiba should explore a divestment of this business and distribute proceeds from any divestment back to shareholders.

3. Capital Allocation

Management has placed a lot of emphasis on capital allocation in its communications with shareholders. We believe that greater efforts should be undertaken in this regard to manage the capital structure more efficiently and effectively.

We note that Toshiba has completed its planned JPY700 billion share repurchase late last year. As highlighted in our earlier letters, we continue to believe that there is substantial headroom available to increase the share repurchase amount by another JPY400 billion to a total amount of JPY1.1 trillion. We have also noted that the Company is planning to raise up to JPY300 billion of corporate bonds by 2021. This can be applied towards this additional share repurchase.

As explained to us by the investor relations team, management assesses the appropriate level of shareholders' equity based on various factors including the assessed risk level of Toshiba's assets. We note that after taking into account the suggested increase in share repurchases, the Company's shareholder equity ratios should still be comparable to peers, taking into consideration the following three adjustments:

(i) Toshiba's balance sheet contains significant valuation allowances for deferred tax assets which has the effect of lowering both shareholders' equity and total assets. We note that as of 31 March 2019, the Company had factored in a valuation allowance of JPY518 billion when accounting for its deferred tax assets. Since management is now confident that it is able to meet the targets set out in the Next Plan, a more aggressive assumption should arguably be adopted towards valuation allowance for deferred tax assets, which will result in a higher shareholders' equity ratio for Toshiba (since both shareholders' equity and total assets would increase by up to JPY500 billion at the maximum). In fact, we understand from the investor relations team that a significant amount of deferred tax assets is expected to be realized by fiscal year end 2022.

(ii) Potential valuation gains from Toshiba's stake in Kioxia Holdings at IPO which will improve the company's shareholders' equity.

(iii) Many of Toshiba's overseas peers would likely have significant goodwill accounted for on their balance sheets, while Toshiba no longer has any goodwill on its balance sheet. Hence, Toshiba's shareholder equity would comparably be less risky after adjusting for goodwill for its overseas peer group.

Further, given the current low level of the Toshiba share price, an additional share repurchase program would appear to be an attractive use of capital. We note that the average purchase price from last year's share repurchase program was around JPY3,628 per share. The current share price of Toshiba represents more than a 30% discount to the average purchase price. Due to these reasons, we continue to believe that a further JPY400 billion of share repurchases would represent good capital allocation.

4. Shareholder Return Policy

Management has articulated that its basic policy is to maintain an average consolidated dividend payout ratio of 30%, and that capital in excess of appropriate level of capital will be used to provide shareholder returns, including share repurchases.

We appreciate this policy but believe that management should demonstrate commitment to shareholder returns by stating a clear target ratio for total shareholder returns. We think that a 100% total shareholder return target in the form of dividend and share repurchases would be ideal. Of course, we understand that Toshiba is currently in a phase where it is trying to grow its core business segments, and if management explains the rationale of retaining capital to fund such growth, we believe that shareholders would be supportive. However, having a 100% total shareholder return target, even if it is not met due to capital requirements, will demonstrate commitment to shareholders.

5. Corporate Governance

We applaud the decision to appoint five new international Directors to the board last year. We had expected that this step would improve corporate governance and provide deep knowledge and experience in international business and corporate portfolio management. It would, on paper, position the board to help to drive sustainable growth and increased shareholder value over the mid- to long-term. Indeed, we are still hopeful that this will be the case. However, we believe that Toshiba continues to trade at a significant and persistent conglomerate discount to its sum-of-parts, even before the recent share price correction caused by the market impact of the coronavirus. We think that part of the reason for this, is that there could be a market perception that still not enough is being done in terms of corporate governance even with the new board members in place, or that even more new international independent Directors are required. We encourage the management and board to consider additional steps that can be taken to improve corporate governance even further and to communicate these to shareholders.

We urge management to consider these proposals seriously and to act expediently. We look forward to having a meaningful discussion with you on these areas. As a long-term shareholder of Toshiba, we may feel the need to propose certain agenda items at the coming AGM this year should we feel that our suggestions have not been given due consideration.

As we have expressed previously, we are deeply appreciative and grateful to you for having taken up the challenge of guiding Toshiba. Our objective is for Toshiba to be strongly positioned for the future, for the benefit of all stakeholders.

Kindly note that we do not intend to discuss or receive any confidential or inside information concerning Toshiba or any other company during our dialogue with you. We would greatly appreciate our dialogue being based solely on publicly available information.

Please contact me at [redacted] or via email at [redacted]@[redacted] any time, at your convenience. We look forward to further discussions with you.

Best regards

Kin Chan
Argyle Street Management Limited