

24 April 2024

3-3-1 Yawata, Ichikawa City, Chiba Prefecture 272-8510
Keisei Electric Railway Co., Ltd.

Palliser

Palliser Capital (UK) Ltd
Palliser House
Palliser Road
London
W14 9EQ

PALLISER CAPITAL SHAREHOLDER PROPOSAL FOR THE 2024 ANNUAL GENERAL MEETING OF KEISEI ELECTRIC RAILWAY CO., LTD.¹

Dear Members of the Board

Advisory Resolution on Capital Allocation and Right-Sizing the OLC Stake

Introduction

We write on behalf of Palliser Capital (UK) Limited (together with its affiliates, “Palliser”, “we”, “us” or “our”). We have a stake of 1.6% in Keisei Electric Railway Co., Ltd. (“Keisei” or the “Company”), making us one of the Company’s largest independent shareholders.

We have engaged extensively with the Company in a patient and respectful manner for nearly three years about the steps needed to resolve the significant and persistent gap between the Company’s market and intrinsic value. Our three-step plan provides a fair, reasonable and effective solution that would greatly benefit all Keisei stakeholders – and the Company has not signalled any disagreement. At the same time, the Company’s recent buyback and OLC share sale were disappointingly anaemic and not a plan of action to deliver fundamental and lasting change at Keisei.

As such, having explored various options with the Company in recent weeks, Palliser has determined to submit the enclosed formal shareholder proposal to add an advisory resolution (“**Advisory Resolution**”) to the agenda for the 181st Ordinary General Meeting of Shareholders (“**AGM**”) in June 2024.

As we explain below, our objective in submitting this proposal is to provide shareholders with an opportunity to vote on a non-binding, advisory basis at the AGM to recommend that the Board establish and publish, by no later than 31 December 2024, an optimized capital allocation plan for Keisei to facilitate:

- a growth-oriented investment strategy and balanced return to shareholders, and
- further reductions in the size of the Company’s shareholding in The Oriental Land Co., Ltd. (“**OLC**”) in such manner as the Board determines appropriate but with a view to the stake being smaller than 15% by 31 March 2026.

We enclose our formal proposal with this letter, which includes the complete text of the Advisory Resolution. Regardless of the outcome of the vote, our proposal is intended to provide shareholders with

¹ Information about Palliser appears at the foot of this letter, which is subject in all respects to, and should be read in conjunction with, the *Disclaimer*.

an opportunity in a full and fair referendum at the AGM to voice their desire (or otherwise) to see management advance measures designed to unlock value and set Keisei on a path towards sustainable long-term growth and prosperity.

In accordance with the *Next Steps* section of this letter below, we look forward to receiving the Company's confirmation by no later than 6PM JST on 26 April 2024 (when the Company's full year results are scheduled to be announced) that the Advisory Resolution will be added to the AGM agenda.

Constructive and respectful engagement to date

The Palliser investment team have closely followed Keisei for many years and, during that time, dedicated significant focus, resources and effort in conducting comprehensive due diligence on the Company. We place enormous value on the extensive interactions we have had to date involving numerous meetings with senior management representatives and Board members, including Kobayashi-CEO, since early 2022.

We firmly believe that our long-standing interest in the Company and rich engagement over a significant period of time have given us uniquely informed insights into the Company and its management team. In this context, our intention has always been to work constructively with the Company to find a path to unlock significant intrinsic value that we believe is currently trapped at Keisei and catalyze growth for the benefit of all Keisei stakeholders.

That same sentiment and our strong desire to find the best path ahead for Keisei for its long-term future underpinned our recent suggestions to Keisei to form a working group together to collaborate on any near-term steps or announcements ahead of the AGM. Our objective was to ensure that management are properly informed and aligned with the wishes of stakeholders to ensure that any Company initiatives could be appropriately calibrated with these expectations. Unfortunately, our offer was declined, as was our more recent proposal for the Board to take the initiative by themselves tabling an advisory resolution at the AGM to give shareholders an opportunity to express views with respect to key capital allocation issues. We felt this would inevitably assist the Board as it formulates a fiscal plan for 2024 and the D2 plan thereafter.

This is why we have taken the initiative at this juncture to submit our own proposal to add the Advisory Resolution to the AGM agenda. It is not a decision that we have taken lightly; rather, it is a thoughtfully considered step intended to afford all of Keisei's shareholders with an opportunity to express their views directly to Keisei's directors.

Steps in the right direction, but comprehensive action yet to be seen

It has been reassuring to hear throughout our dialogue that management, including Kobayashi-CEO, not only acknowledge the shortcomings holding the Company back, but share our fundamental perspectives about the comprehensive measures needed to achieve meaningful change, including future reductions in the size of the OLC stake. It has been apparent too that management understand the significance of Tokyo Stock Exchange ("TSE") and other government initiatives to promote improved capital efficiency, governance and IR standards across the Japanese market.

We have seen some positive results. It has been encouraging for instance to see incrementally helpful improvements with respect to investor communications. Moreover, we see promise in the Board's recent historic decisions to approve the first ever buy-back undertaken by Keisei as a means of enhancing shareholder returns, as well as the decision to dispose a 1% stake in OLC.

However, these recent initiatives are short-term in nature, and fall far short of an effective long-term plan of action to address the fundamental issues currently depriving Keisei stakeholders of the Company's true

value and growth potential. The 10% share price fall following the OLC stake disposal announcement in early March confirms that other Keisei shareholders agree with us.

The Board's lacklustre approach to date is, we hope, to be contrasted with a more ambitious strategy that we would like to see foreshadowed in the Company's D2 plan. We therefore believe that, now more than ever, management need to canvass the views of shareholders as a key stakeholder group on the need for an optimized capital allocation plan for Keisei which will facilitate, among other things, further near-term OLC stake reductions.

Resounding support for overdue change from Keisei's customers too

Other stakeholders are also supportive of more fundamental action. As presented to management previously, feedback from thousands of frequent users of Keisei railways who were polled as part of a consumer survey commissioned by Palliser in November 2023 was resoundingly in favour of further positive change. By way of illustration, as we reported to you at the time the survey results were released, of the respondents who were polled:

- Around 80% supported a monetization or partial monetization of the OLC stake to release capital that can be utilized by Keisei;
- Around 75% agreed it is problematic that latent value tied up in the OLC stake has not been utilized to improve services and that Keisei should focus on its core businesses; and
- Around 75% thought it is more important for Keisei to improve its core businesses than to remain the largest shareholder of OLC.

These views are in line with our own conversations, not only with many of Keisei's shareholders, but also with key regulatory agencies, all of whom agreed that the time for change has arrived.

Since we have always prioritized respectful engagement with the Keisei Board and management team, we agreed to your request not to publish certain of our materials, including the output of this consumer survey and our detailed analysis on potential investment projects to enhance Keisei's core businesses. At this juncture, in order to ensure that shareholders have a well-rounded and fully informed picture as they consider the Advisory Resolution, we will make these materials available to all Keisei stakeholders in advance of the AGM.

Broadening the debate – giving all shareholders a voice

The underwhelming nature of the Company's recent share buy-back and 1% OLC stake reduction initiatives (announced on 22 February 2024 and 8 March 2024, respectively), as well as the support received from shareholders and other stakeholders for more fundamental and lasting positive change at Keisei, have convinced us that broader stakeholder engagement and action are urgently needed if Keisei stands any chance of seizing the significant opportunity outlined in detail in our October 2023 published presentation, available at: [link](#).

We believe that the best way to initiate necessary positive change is to clearly and transparently broaden the debate to include all stakeholders. This starts with giving shareholders a forum to vote on the Advisory Resolution so that they can express their views on far-reaching capital allocation reforms to unlock value and catalyze growth at Keisei.

As well as exploring other possibilities, we previously requested privately that the Board take the initiative itself to add the Advisory Resolution to the AGM agenda to ensure the Company could take full credit for this outreach exercise. However, as mentioned above, that request was declined. Accordingly, our formal shareholder proposal is intended to achieve the same result. While there are other avenues available to

shareholders to set the Company on a better path, including Board change and bye-law amendment proposals, these are not our preferred way forward for the time being. Instead, we are proposing an Advisory Resolution as a constructive and collaborative way of ensuring that all Keisei shareholders have a voice in a referendum on the key capital allocation pillar of Palliser's three-step plan and with the expectation that the Company, acting constructively, will include it in the agenda for the upcoming AGM.

Advisory Resolution – relevant considerations

Resolutions of this nature are a proper tool which have been used on many prior occasions, including by the Boards of leading Japanese companies, to facilitate a shareholder vote on an *advisory* basis (i.e. one that does not legally bind the Company or the Board). A case in point is the advisory resolutions proposed by Toshiba to facilitate shareholder "*feedback*" and encourage "*open and constructive dialogue*" with shareholders².

Our sole objective in proposing the Advisory Resolution is entirely the same – to enfranchise Keisei shareholders to express a view through a non-binding vote. The referendum itself, not a particular outcome (albeit we see immense benefits for all stakeholders if the Company actions the proposals set out in the Advisory Resolution) is what counts – to ensure that an important stakeholder group at Keisei has a voice and that management can hear it, as well as to showcase Keisei as a beacon of more open and transparent governance with a stakeholder engagement exercise that will align with many important TSE and government policy themes.

There are other important points to make about the Advisory Resolution:

- it is not prescriptive and leaves management with significant discretion to achieve the important objective of reducing the OLC stake to an appropriate size within a sensible and workable timeframe;
- it will not detract in any way from or otherwise impact the other important items of routine Company business that will inevitably fall to be addressed at the AGM;
- simply put, it is about giving shareholders a chance to have a say. It is an approach that is ideally suited to Keisei with its diverse, retail-dominated shareholder base whose ranks are filled by loyal Keisei customers and members of the community – Keisei stakeholders in the broadest sense who have a long-term outlook. As we have seen at prior AGMs we have attended, Keisei's retail shareholders care greatly about the local community and the longer-term development of Keisei's core businesses and they would inevitably account for a significant proportion of the shareholders who stand to vote on the Advisory Resolution. These individuals mostly have no direct access to management or the resources or time to devote to engagement with Keisei. Our proposal therefore empowers these individuals, and all shareholders as a class;
- the subject matter focuses exclusively on capital allocation – steering clear of other topics at this stage, such as Board composition, which could have an impact on Keisei management;
- it does not foreshadow any target or size of expected shareholder returns or even significant incremental returns, but rather a balanced return, consistent with the general theme of giving management maximum discretion when it comes to implementing a suitable capital allocation plan; and

² Satoshi Tsunakawa, Interim Chairperson, President and Chief Executive Officer of Toshiba regarding the advisory resolution proposed by the Toshiba board of directors at its 24 March 2022 EGM.

- the Advisory Resolution is not short-term oriented; in fact, by focusing on capital allocation generally, and specifying a window of just under two years for the Company to right-size the OLC stake in particular, the embedded ambition is long-term in nature with stability and consistency in mind.

We look forward to sharing further materials on a public basis in due course to ensure that stakeholders are properly informed about the Advisory Resolution as we approach the AGM.

Next steps

We expect the Board to respond promptly and on a public basis to our formal shareholder proposal by confirming by **no later than 6PM JST on 26 April 2024** that the Advisory Resolution will be added to the AGM agenda.

We trust that the Board will see the obvious benefits for all stakeholders and the Company itself of a vote on the Advisory Resolution. Regardless of the outcome, the vote will serve as a straightforward, non-binding referendum of an important stakeholder group on issues which are central to the Company's future, and a standout example of a responsible shareholder listening exercise to build stakeholder consensus and momentum – we hope towards further comprehensive and fundamental reforms at Keisei.

Any attempt to deny shareholders this opportunity would be a troubling indication that the Board is unwilling to listen to shareholders or is afraid of the views that may be expressed. While we do not expect the Board to be close-minded in this way, if the Board does decline to provide the confirmation requested above within the timeframe mentioned, we expect the Board to provide clear and detailed reasons on a public basis for adopting such a position.

As ever, continuing a constructive and respectful dialogue remains our first priority. We remain at the Company's disposal should management wish to engage further on alternative satisfactory outcomes to address the concerns that underpin our proposal, and next steps generally.

Sincerely,

For and on behalf of
Palliser Capital (UK) Ltd



James Smith
Chief Investment Officer

Enclosure: Palliser's Shareholder Proposal

24 April 2024

3-1, Yawata 3-chome
Ichikawa-shi, Chiba, 272-8510
Keisei Electric Railway Co., Ltd.
Representative Director and President, Mr. Toshiya Kobayashi

16F, Fukokuseimei Bldg. 2-2-2 Uchisaiwai-cho
Chiyoda-ku, Tokyo, 100-0011
Atsumi & Sakai
TEL: 03-5501-2111 / FAX: 03-5501-2211
Ryuichi Nozaki, Akio Kawamura and Sho Tsuzuki,
each an Attorney-at-law for Palliser Capital
Master Fund Ltd. as the Notifying Party

Shareholder's Written Proposal

Palliser Capital Master Fund Ltd. ("Notifying Party") is a shareholder of Keisei Electric Railway Co., Ltd. ("Company") and has been holding over 300 voting rights in the Company for the past six months.

Pursuant to the Companies Act, we hereby propose to include the matter described in Part 1 below in the agenda for the 181st Annual Shareholders Meeting of the Company to be held in June 2024 (the "Annual Shareholders Meeting"), and to circulate the Proposal Outline set out in Part 2 below to the shareholders of the Company.

Part 1. Matter to be included as an agenda item at the Annual Shareholders Meeting

Proposal: Introduction of a capital allocation plan for the Company which includes future disposals of shares in Oriental Land Co., Ltd

Part 2. Proposal Outline

Proposal: Introduction of a capital allocation plan for the Company which includes future disposals of shares in Oriental Land Co., Ltd

A. Outline

The Notifying Party hereby requests that the board of directors of the Company (the "Board") includes the following advisory proposal in the agenda of the Annual Shareholders Meeting to receive feedback from the Company's shareholders on establishing and publishing a capital allocation plan, including disposals of shares in Oriental Land Ltd. (hereinafter, "OLC") held by the Company:

The Board of Directors shall establish and publish a capital allocation plan (hereinafter, the "Plan") by 31st December 2024 to facilitate a growth-oriented investment strategy and a balanced return to shareholders to enhance the Company's corporate value. The Plan shall provide for steps to be taken within an appropriate timeframe and in a manner to be determined by the Board, but in any event by no later than 31st March 2026, to reduce the Company's shareholding in Oriental Land Co., Ltd. (hereinafter, "OLC") to less than 15% of the voting rights of all shareholders of OLC.

The Board of Directors shall make future capital allocation decisions in accordance with the Plan and provide an update on the implementation of the Plan each year in the Company's annual report.

B. Reason for the Proposal

The Proposal recommends, on an advisory basis, that the Company establish an appropriate capital allocation framework to ensure that capital is allocated in the future to more appropriate investments in light of the Company's cost of capital.

As part of this, the Proposal recommends, on an advisory basis, that the Company reduce the size of its OLC stake, which yields an extremely low dividend income, to less than 15%, so that proceeds can be used for growth-oriented investments and enhancements of Keisei's railway business for the benefit of customers, as well as balanced shareholder returns.

This reduction of the OLC stake will mitigate the Company's risk exposure to a large decline in the OLC share price. Furthermore, it will require the Company to record the stake at market value, thereby revealing the Company's low PBR and true financial condition which has previously been distorted by the undervaluation of the OLC stake on Keisei's balance sheet, and therefore not properly reflected in the Company's financial statements.

Specifying a period of time just under two years to reduce the OLC stake to less than 15% and for the Board to address the formation and implementation of the Plan by the end of 2024 will ensure these initiatives are addressed within a reasonable timeframe which is focused on Keisei's long-term future and which affords full discretion on implementation of the Plan, including the OLC disposals, to management.

This Proposal also marks the first important step to improving the corporate governance of the Company.

Overall, the Proposal will convey to Company management in a non-binding manner the ardent desire of shareholders to see an improved Keisei moving forward.

Information about Palliser

Palliser is a global multi-strategy fund based in London. Our value-oriented investment philosophy is applied to a broad range of opportunities across the capital structure with a focus on situations where positive change and value enhancement can be achieved through thoughtful, constructive and long-term engagement with companies and across a range of different stakeholder groups.

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