

30 April 2024

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**Keisei Electric Railway Co., Ltd.**

**Palliser**

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## **PALLISER CAPITAL 2<sup>nd</sup> AGM PROPOSAL – AMENDMENT OF ARTICLES OF INCORPORATION<sup>1</sup>**

Dear Members of the Board

### **Binding Resolution to Address Capital Allocation and Right-Sizing the OLC Stake**

#### **Introduction**

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We write again with reference to:

- [our letter to the Board last week \(24 April 2024\)](#) enclosing Palliser’s formal shareholder proposal to add the Advisory Resolution to the agenda for the forthcoming AGM in June 2024; and
- the Company’s response dated 26 April 2024 stating, without giving any reasons, that the Board will not add the Advisory Resolution to the AGM agenda.

Palliser is deeply disappointed by the Board’s outright rejection of the proposal and troubled that it has sought to avoid offering shareholders an opportunity to express their views on the proposal without any explanation whatsoever.

We have little doubt that Keisei shareholders and other stakeholders, including customers and those with general market oversight responsibilities, such as the TSE, would likewise find the Board’s irresponsible and dismissive approach to our proposal very concerning. We note too that the Board also ignored our request - made in the interest of transparency and accountability - to respond to us publicly. Simply put, shareholders deserve better than this.

Palliser is therefore left with no option but to submit another formal shareholder proposal, which is enclosed, to add a binding resolution to the agenda for the forthcoming AGM to amend the Company’s articles of incorporation. We explain this necessary step below.

#### **An unjustified refusal to allow shareholders to vote on the Advisory Resolution**

The Advisory Resolution was intended to give shareholders a say on the adoption by Keisei of a capital allocation plan to facilitate a growth-oriented investment strategy and balanced return to shareholders, involving further reductions in the size of the Company’s shareholding in OLC to below 15% by 31 March 2026.

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<sup>1</sup> 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*.

As we explained, this was about creating the conditions in a constructive way for an *advisory* vote only – one focused solely on capital allocation issues which afforded the Board and management full flexibility to implement. As the Board was fully aware, our intention was to enable the Company to receive feedback from a diverse, retail-dominated shareholder base on a key pillar of the solution to resolve the Keisei value gap.

This was not about a particular outcome, but the vote itself, as a direct form of feedback from a key stakeholder group, particularly those with limited access to Keisei management, to share their views. There was absolutely no reason for the Board to reject our proposal and deprive shareholders this opportunity, which would have set Keisei and the Board in a positive light as a beacon for open and transparent governance. Instead, the fact that the Board did so without so much as an explanation is a highly regrettable indictment on the Board's approach to governance and shareholder engagement – reinforcing the need for the steep improvements in this area.

### **New binding shareholder proposal**

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As mentioned, the Board's unwarranted and needless position leaves Palliser with no option but to submit another shareholder proposal to add a resolution, this time a binding one, to the agenda for the forthcoming AGM. As a binding resolution (unlike the Advisory Resolution), the Keisei Board is legally required and duty-bound to accede to Palliser's proposal in accordance with Articles 303 and 305 of the Companies Act of Japan and to supplement the AGM agenda accordingly.

**Our proposal takes the form of a binding shareholder vote on the addition of a single new article to the Company's Articles of Incorporation on Capital Allocation and the Management of Investment Securities (the "Articles Addition"). This will require, in summary:**

- **The Board to establish, publish and maintain a capital allocation plan commencing 1 January 2025 to enhance the Company's corporate value and to serve as the basis for future capital allocation decisions; and**
- **The Company to reduce its shareholding in OLC to less than 15% within an appropriate timeframe and in a manner to be determined by the Board, but in any event by no later than 31 March 2026.**

The Articles Addition provides shareholders with a vote on precisely the same issues that were covered by the Advisory Resolution: The adoption of an optimized capital allocation framework and a reduction in the OLC stake to below 15% within a reasonable timeframe. Only this time, with the Board having dismissed the non-binding Advisory Resolution, the vote on the Articles Addition will be binding.

The rationale for these important measures remains as set out in [our letter to the Board of 24 April 2024](#).

The 31 March 2026 deadline for achieving the OLC stake reduction and an explicit stipulation that this should happen in a manner to be determined by the Board accommodates full management discretion and flexibility as to how and when the Company should make further disposals of the OLC stake. A period of just under two years to complete the right-sizing provides ample time in our view, noting that the Board has already had significant time to consider the negative impact for stakeholders of maintaining the OLC stake at its current size.

### **The same goal – giving shareholders a voice**

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As we said in our last letter, after exploring various options with the Company, last week's Advisory Resolution was intended to be a constructive way of focusing on capital allocation and securing a platform for shareholders to be heard at the AGM. Whilst we had understood that it was open to the Board to refuse to agree to our proposal given its non-binding nature, our sincere hope was that the Board would act responsibly and permit this referendum – especially since advisory resolutions are a tool used by prestigious companies, such as Toshiba, in a similar way.

Nonetheless, with the Board having taken the surprising and short-sighted decision to reject the Advisory Resolution, the Board has no option now but to add the Articles Addition to the AGM agenda, ensuring that shareholders still have the same voting opportunity on the same issues.

Our key motivation and objective also remain unchanged. This is about giving shareholders a forum – this time guaranteed through a binding resolution - to express their views to the directors on the need for a recalibration of Keisei's approach to capital allocation and unlocking significant trapped value for the benefit of all stakeholders. As before, the outcome of the vote, which requires a high threshold to pass, remains far less important than the vote itself and offering shareholders a referendum on these critical topics.

### **Next steps**

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We look forward to receiving the convocation notice with the Articles Addition on the AGM agenda.

As we mentioned previously, Palliser intends to publish further materials prior to the AGM to ensure that stakeholders are fully informed about the purpose and benefits of our proposal. In the meantime, we remain available to the Company should management wish to engage further in advance of the AGM or revisit the Advisory Resolution, which works just as well as a means of giving shareholders a vote on capital allocation issues.

Sincerely,

For and on behalf of  
**Palliser Capital (UK) Ltd**



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James Smith  
Chief Investment Officer

*Enclosure: Palliser's Shareholder Proposal*

30 April 2024

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### **Shareholder's Written Proposal**

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

The Board, without any explanation to Keisei shareholders, declined to accept the Notifying Party's shareholder proposal of 24 April 2024 to enable all shareholders to simply express their views to the Board, on a non-binding advisory basis, as to whether the Company should establish and publish an appropriate capital allocation plan to include steps to be taken for further reductions in the size of the OLC stake to less than 15% by 31 March 2026.

The Notifying Party is hereby submitting this proposal to insert a new chapter to the Company's Articles of Incorporation, which the Board is required to include in the agenda of the 181st Annual Shareholders Meeting to be held in June 2024 (the "Annual Shareholders Meeting") pursuant to Paragraph (2) of Article 303 and Paragraph (1) of Article 305 the Company Act of Japan.

Pursuant to the Company Act, we propose to include the matter described in Part 1 in the agenda of the Annual Shareholders Meeting of the Company and to circulate the Proposal Outline set out in Part 2 below to the shareholders of the Company.

#### **Part 1. Matters to be included in the agenda of the Annual Shareholders Meeting**

Proposal: Partial amendment to the articles of incorporation - addition of new provisions regarding Capital Allocation Plan and Management of Investment Securities

#### **Part 2. Proposal Outline**

Proposal: Partial amendment to the articles of incorporation - addition of new provisions regarding Capital Allocation Plan and Management of Investment Securities

## A. Outline

The following new Chapter shall be inserted as Chapter 7 in the Company's Articles of Incorporation. The current Chapter 7 Accounting shall be amended to Chapter 8 Accounting and the current Article 48 and each Article thereafter shall be renumbered accordingly.

Current Article of Incorporation	Proposed Amendment
(Newly added)	<p>Chapter 7 Capital Allocation Plan and Management of Investment Securities</p> <p>Article 48</p> <p>(1)</p> <p>The Board of Directors shall establish, publish and maintain an appropriate capital allocation plan to enhance the Company's corporate value (the "Plan") commencing from 1 January, 2025. The Board of Directors shall make future capital allocation decisions taking into account the Company's cost of capital and in accordance with the Plan. The Board of Directors shall provide to shareholders an update on progress of the Plan at least once each business year in the Company's annual Securities Report or by other means.</p> <p>(2)</p> <p>Within an appropriate timeframe and in a manner to be determined by the Board, but in any event by no later than 31 March 2026, the Company shall reduce its shareholding in The Oriental Land Co., Ltd. (hereinafter, "OLC") to less than 15% of the voting rights of all shareholders of OLC and maintain the Company's shareholding in OLC below such level.</p>

## B. Reason for the Proposal

The Proposal would ensure a critical step is taken by the Company towards a capital allocation framework which ensures that capital is allocated in the future to more appropriate investments in light of the Company's cost of capital.

The Proposal would require the Company to reduce the size of its OLC stake, which yields an extremely low dividend income, to less than 15% of OLC's aggregate voting shares 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 also 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 its true market value since it will no longer be able to account for the OLC stake using the equity method accounting. This will reveal 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 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 and from 1 January 2025 will ensure these initiatives are addressed within a reasonable timeframe which affords full discretion on specific implementation of the Plan, including the OLC disposals, to management.

This Proposal also marks the first important step to improving the Company's corporate governance as well as its capital allocation framework.

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