May 20, 2022

Company name: Nissan Shatai Co., Ltd.
(Code no.: 7222, Prime of Tokyo Stock Exchange)
Representative: Haruhiko Yoshimura , President
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Notice Regarding the Board of Director's Opinions on the Shareholder Proposals

Nissan Shatai received a document (hereinafter "Shareholder Proposal Document") that indicates the intent of LIM JAPAN EVENT MASTER FUND (hereinafter "Proposing Shareholder"), a Nissan Shatai shareholder, to submit shareholder proposals (hereinafter "Shareholder Proposals") as resolutions at the 99th Ordinary General Shareholders Meeting taking place on June 23, 2022 and extensively reviewed itscontent. Following the review, Nissan Shatai's Board of Directors adopted a resolution opposing at the Shareholder Proposals at a meeting held today and provides notification as explained below.

I. Content of the Shareholder Proposals and reasons

１． Resolutions

1 Partial revision of the Articles of Incorporation (preventing appointment of former employees of Nissan Motor Corporation)
2 Partial revision of the Articles of Incorporation (preventing provision of funds as deposited funds or loans to Nissan Motor Corporation)
3 Partial revision of the Articles of Incorporation (disclosure of personal compensation for directors who have the right to represent)
4 Partial revision of the Articles of Incorporation (disclosure of cost of capital)
5 Share buybacks

２． Resolution content and proposal reasons

Refer to the Attachment: Content of the Shareholder Proposal.
This presents relevant points from the Shareholder Proposal document submitted by the Proposing Shareholder in the original form (proposal reasons are summaries of content submitted by the Proposing Shareholder).

II. Nissan Shatai's Board of Directors' opinions on Shareholder Proposals

1. Partial revision of the Articles of Incorporation (preventing appointment of former employees of Nissan Motor Corporation)

（1） Nissan Shatai's Board of Directors' opinion

Nissan Shatai's Board of Directors' opposes the subject resolution for the following reasons.

（2） Reasons for opposing

Director candidates should undergo a review from diverse perspectives, including personal capabilities, experience, and knowledge, as the basis for a decision. At Nissan Shatai, the Board of Directors selects director candidates with consideration of examination and report by the Nomination and Remuneration Committee, which assures transparent and objective selection process. The Nomination and Remuneration Committee consists of three members, including two independent outside directors, and the Committee Chair is an independent outside director. The selection process ensures transparency and objectivity.

Nissan Shatai passed a resolution regarding nominations of director candidates with the following policy at the Board of Directors meeting held on February 21, 2020, and in accordance with the policy, the Board of Directors selects director candidates using a process that incorporates examinations and report of the Nomination and Remuneration Committee.

① A Director candidate shall be someone with deep understanding of our business and operating environment and, as leader of organization, capable and experienced in adequately and with speed implementing decisions taken by the Board of Directors as a leader of the organization.

② A Representative Director candidate shall be someone who has many years of experience and extensive knowledge related to full range of Nissan Shatai's business and has superior decision-making capabilities and strong leadership.

Directors, regardless of whether they previously worked at Nissan Motor, are aware of their responsibility and strive to enhance enterprise value and shareholders' value as Nissan Shatai directors. Since director candidates, regardless of their previous careers, should undergo a review from diverse perspectives by the Nomination and Remuneration Committee and Board of Directors as the basis for a decision, it is inappropriate to stipulate a uniform ban on people who previously worked at Nissan Motor as director candidates at Nissan Shatai in the Articles of Incorporation that define the fundamental principles of the company.

Based on these reasons, Nissan Shatai's Board of Directors' opposes the subject resolution.

2　Partial revision of the Articles of Incorporation (preventing provision of funds as deposited funds or loans to Nissan Motor Corporation)

（1）Nissan Shatai's Board of Directors' opinion

Nissan Shatai's Board of Directors' opposes the subject resolution for the following reasons.

（2）Reasons for opposing

Nissan Shatai believes that reinforcement of corporate operations to improve earnings and provision of stable, continuous shareholder return are important management issues. It hence continues to conduct business investments aimed at sustainable growth and bolstering its competitiveness, including development of new vehicles, facility maintenance and updates, improvement of productivity, and environmental and safety measures. While specific investment plans and amounts that extend over the longer term cannot be disclosed because this is related to future product plans, it anticipates more extensive investments than previously from the current fiscal year.

Furthermore, considering the need to be prepared for unforeseen situations, such as impact on production activities by natural disasters and pandemics along the lines of COVID-19, Nissan Shatai must maintain sound financial standing and have sufficient surplus funds that can be flexibly utilized.

Regarding use of Cash Management System ("CMS"), Nissan Shatai independently and actively selected this program because it is the most suitable measure as it not only has advantages versus other financial products, such as the ability to safely and reliably obtain yield, but also offers settlement convenience and accommodates above-mentioned fund demand.

Additionally, Nissan Shatai has established the Business Monitoring Committee that consists of four members who are all independent executives (two independent outside directors, two independent outside statutory auditors) and employs a framework in which the Business Monitoring Committee reviews the content of transactions and the Board of Directors decides in light of examinations and report of the Committee in order to prevent damage to Nissan Shatai's enterprise value and minority shareholder interests related to important transactions with Nissan Motor, such as CMS. Nissan Shatai intends to continue steadfast study of the most suitable utilization and management of surplus funds.

Regarding management of surplus funds, this is an individual decision matter related to business execution, and it is inappropriate to remove specific formats in the Articles of Incorporation that define the fundamental principles of the company.

Based on these reasons, Nissan Shatai's Board of Directors' opposes the subject resolution.

3　Partial revision of the Articles of Incorporation (disclosure of personal compensation for directors who have the light to represent)

（1）Nissan Shatai's Board of Directors' opinion

Nissan Shatai's Board of Directors' opposes the subject resolution for the following reasons.

（2）Reasons for opposing

Remuneration for Nissan Shatai's Directors, including the Representative Director, consists of two types of monetary remuneration within the upper limits approved by the ordinary shareholders meeting – (1) annual base salary that is fixed and based on each Director's roles and responsibilities and (2) performance-linked remuneration that is determined in accordance with the achievement of major Nissan Shatai performance targets and the performance of each Director. The annual base salary reflects the roles, responsibilities, Nissan Shatai's income results, personal results, and other aspects. The performance-linked remuneration takes into account Nissan Shatai's consolidated operating profit, free cash flow, and other results indicators. Regarding the Representative Director's performance-linked remuneration, Nissan Shatai discloses that it is determined by multiplying 40% of the base salary by an attainment ratio for consolidated operating profit, free cash flow, and other results indicators.

Decisions regarding the remuneration decision policy and remuneration of Directors involve the Nominations and Remuneration Committee's examination of the original proposal, by which a transparent and objective process is secured. Furthermore, Nissan Shatai discloses the total value of remuneration, and number of people in the category by Directors, Statutory Auditors, and Outside Directors and Outside Statutory Auditors in the Business Report and securities report.

Nissan Shatai's Directors, regardless of their previous companies or experiences, bear responsibility to conduct management for the benefit of Nissan Shatai and its shareholders. They are sufficiently aware of this duty in daily management activities.

It is inappropriate to put a stipulation requiring individual disclosure of remuneration value, content, and the decision method just for the Representative Director's remuneration in the Articles of Incorporation that define the fundamental principles of the company.

Based on these reasons, Nissan Shatai's Board of Directors' opposes the subject resolution.

4　Partial revision of the Articles of Incorporation (disclosure of cost of capital)

（1）Nissan Shatai's Board of Directors' opinion

Nissan Shatai's Board of Directors' opposes the subject resolution for the following reasons.

（2）Reasons for opposing

Nissan Shatai aims to grow sales and earnings and improve enterprise value over the longer term through business investments in development of new products and production.

While Nissan Shatai acknowledges that capital cost is an important indicator for business decisions, it is also aware that this is not determined unequivocally because of diverse approaches based on certain assumptions in selecting figures used as the basis of the calculation, and it hence does not disclose a specific value.

It is inappropriate to stipulate the content of the subject Shareholder Proposal in the Articles of Incorporation that define the fundamental principles of a company.

Based on these reasons, Nissan Shatai's Board of Directors' opposes the subject resolution.

5　Share buybacks

（1）Nissan Shatai's Board of Directors' opinion

Nissan Shatai's Board of Directors' opposes the subject resolution for the following reasons.

（2）Reasons for opposing

Nissan Shatai believes that reinforcement of corporate operations to improve earnings and provision of stable, continuous shareholder return are important management issues and has adopted a basic policy for shareholder return of continuous payment of a stable dividend. Based upon this basic policy, as preparation for massive investments in new product development and production set-up and as readiness for unforeseen situations, such as impact on production activities by natural disasters and pandemics, Nissan Shatai must have sufficient surplus funds that can be flexibly utilized and has

decided that it is not appropriate to use a large amount of funds on share buybacks at all once from a near-term perspective. While it acknowledges that share buybacks are an option in shareholder return measures, Nissan Shatai also believes that it needs to give balanced consideration to all stakeholders.
Furthermore, share buybacks should be decided and executed timely in light of the stock price trend, earnings and financial situation, future business environment, and the presence or not of undisclosed important facts. Nissan Shatai thinks the rushed promise on buying its own shares and use of a large amount of funds on share buybacks at all once from a near-term perspective in the subject proposal might lead to a situation that damages the interests of shareholders and is inappropriate. Nissan Shatai already has a stipulation in the Articles of Incorporation that enables it to purchase its own shares based on a resolution by the Board of Directors. The Board of Directors intends to continue to review the most appropriate shareholder return measures in light of the company's situation.
Based on these reasons, Nissan Shatai's Board of Directors' opposes the subject resolution.

(Attachment: Content of the Shareholder Proposal)
This presents relevant points from the Shareholder Proposal Document submitted by the Proposing Shareholder in the original form (proposal reasons are summaries of content submitted by the Proposing Shareholder).

Section 1: Items for the general shareholder meeting (proposed resolution)
1 Partial revision of the Articles of Incorporation (preventing appointment of former employees of Nissan Motor Corporation)
2 Partial revision of the Articles of Incorporation (preventing provision of funds as deposited funds or loans to Nissan Motor Corporation)
3 Partial revision of the Articles of Incorporation (disclosure of personal compensation for directors who have the right to represent)
4 Partial revision of the Articles of Incorporation (disclosure of cost of capital)
5 Share buybacks

Section 2: Resolution content and proposal reason
1 Partial revision of the Articles of Incorporation (preventing appointment of former employees of Nissan Motor Corporation)
(1) Summary of the Proposal
The resolution seeks to add the following clause to Nissan Shatai (hereinafter "Company")'s Articles of Incorporation.

（Underlining indicates the change）

Current Articles of Incorporation	Proposed Amendments
（New addition）	<u>（Preventing appointment of former employees of Nissan Motor Corporation）</u> <u>Article 21, Item 2: The Company may not submit a person with work experience as a director or employee for five years or longer at Nissan Motor Corporation or one of its subsidiaries or affiliated companies (hereinafter, Nissan Motor, etc.) as a director candidate in the Company proposal.</u>

（2）Reason for the proposal (summary)
The Company is a listed subsidiary of Nissan Motor (Nissan) and obtains almost all of its sales from Nissan. Top executives are normally from Nissan and three current internal directors, including President Haruhiko Yoshimura, are from Nissan. The Company has not presented any management goals that contribute to minority shareholder interest, such as ROE, and is only focused on Nissan. Nissan's intent also appears to decisively affect capital allocation.
As of the end of December 2021, the Company is consigning management to Nissan's group fund management firm of roughly 53.5 billion yen as deposited funds and about 70.2 billion yen as long-term loans as part of the cash management system (CMS). This is comparable to "milk supply" to the parent company that have weak earnings and its group companies.
The Company does not have any interest-bearing debt, and its capital ratio is about 83%. Due to fund management that ignores minority shareholders, the Company's stock price trades at a negative enterprise value. If a party acquired the Company without a premium, it would obtain the Company's business for free and also receive roughly 52.9 billion yen in change as the difference between the consigned fund

management and market capitalization.

While the Company selected the Prime Market in the Tokyo Stock Exchange's new market categories adopted from April 2022, it is questionable whether the Company is even qualified as a listed company because its management ignores conflict of interest between the top shareholder and minority shareholders and it is evaluated very poorly by the stock with negative enterprise value. The Company clearly should be pursuing efficient capital allocation, and its representative director and other directors from the parent company that is requesting "milk supply" are not suitable choices.

The Company has not disclosed the content of Nissan's nominating rights or reasons for appointment of people from Nissan. Meanwhile, the Tokyo Stock Exchange's Corporate Governance Code, Stewardship Code, and METI's "Practical Guidelines for Corporate Governance Systems" call for listed company with a controlling shareholder to establish and operate a governance system that protects the interests of minority shareholders.

2 Partial revision of the Articles of Incorporation (preventing provision of funds as deposited funds or loans to Nissan Motor Corporation)

(1) Summary of the Proposal

The resolution seeks to add the following Chapter and Article to the Company's Articles of Incorporation.

(Underlining indicates the change)

Current Articles of Incorporation	Proposed Amendments
(New addition)	Chapter 7 Preventing provision of funds as deposited funds or loans to the controlling shareholder (Preventing provision of funds as deposited funds or loans to the controlling shareholder) Article 44: The Company may not provide funds as deposited funds or loans to Nissan Motor Corporation or its subsidiaries or affiliate companies.

(2) Reason for the proposal (summary)

The total value of the Company's consigned fund management to Nissan's group fund management firm reached about 123.6 billion yen, or 1.75x its market capitalization as of April 15. The Company received about 700 million in interest income in FY3/21. Dividing by roughly 124.3 billion yen, the average value of the consigned fund management balance at end-March 2021 and end-March 2020, this comes to less than 0.6% and is significantly below the Company's capital cost as explained below.

As a result, the Company's P/B ratio is 0.4x, the lowest level since 2000 when the IT bubble collapsed, and has taken hold well below 1x, which indicates dissolution value. The Company's executive team is letting it sit at such a low stock price level that the Company would pay change to an acquirer as mentioned above.

Past comments have pointed out that the Company's CMS is a transaction that might be harming the interests of minority shareholders in a subsidiary (20th Meeting of the Corporate Law Subcommittee (held on May 16, 2012) Proceedings (comments by Chair Maki Saito), Pages 42 and 46-47). Materials from METI's 13th Corporate Governance System Research Group (meeting on January 21, 2019) meeting similarly cites CMS as an example of a "specific case of possible conflict of interest at a listed subsidiary"

(Material 4: Secretariat Explanatory Materials, Page 30).

The “Interim Review Related to the Format of Minority Shareholder Protection at a Listed Company with a Controlling Shareholder or Shareholder with Effective Control” by the research group on the format of minority shareholder protection at a subordinate listed company released by the Tokyo Stock Exchange (hereinafter, Interim Review) mentions the importance of adequate information disclosure regarding loans and deposited funds via CMS with the potential to harm the interests of minority shareholders in a subsidiary on Page 8 (note 14) “There was mention of the importance of adequate information disclosure by a listed company regarding transactions that could involve a different understanding of significance between a controlling shareholder and listed company with a controlling shareholder and investors, such as loans and deposited funds via a cash management system of the controlling shareholder’s corporate group.”

3 Partial revision of the Articles of Incorporation (disclosure of personal compensation for directors who have the right to represent)

(1) Summary of the Proposal

The resolution seeks to add the following clause to the Company’s Articles of Incorporation.

（Underlining indicates the change）

Current Articles of Incorporation	Proposed Amendments
（New addition）	（Director Renumeration, etc.） Article 26 (abbreviated) <u>② The Company shall individually disclose the renumeration amount, content, and decision method for renumeration of directors who have the right to represent annually in the Business Report and Securities Report.</u>

（2）Reason for the proposal (summary)

According to the Company’s Corporate Governance Report issued on December 23, 2021, directors’ renumeration consists of two types of renumeration – (1) Annual base salary that is fixed and based on each Director’s roles and responsibilities and (2) performance-linked remuneration that is determined in accordance with the achievement of major Nissan Shatai performance targets and the performance of each Director.

Performance-linked renumeration is determined through calculation of a ratio that multiplies the payment ratio that is established for each title of directors who are corporate officers by the degree to which each individual’s targets concerning financial indicators and other performance were achieved and application of the ratio to the base salary in the applicable fiscal year. However, the specific “ratio” values are not disclosed.

Financial indicators used for remuneration linked to results of operations are consolidated operating income, consolidated free cash flows and other items, which are major indicators for “the preservation of a sound foundation for business operations in the future”. Furthermore, these indicators are consistent with the current medium-term management plan and are reexamined as needed to reflect changes in the business climate. The values themselves and the way in which they are reviewed, however, is a black box.

The Corporate Governance Code stipulates “The board should design management remuneration systems such that they operate as a healthy incentive to generate sustainable growth, and determine actual remuneration amounts appropriately through objective and transparent procedures. The proportion of management remuneration linked to mid- to long-term results and the balance of cash and stock should be set appropriately.” (June 2021 Revised Version, Supplemental Rule 4.2.1). The Company’s renumeration program for directors does not appear to utilize equity renumeration, and there is a high likelihood that it does not offer incentives to realize minority shareholder interests.

Since the Company’s enterprise value has taken hold at a negative level since 2021 due to the preservation of capital allocation that ignores minority shareholders, the content of incentives in renumeration for the Representative Director and President, who is a symbolic presence of the practice of “former employees of Nissan Motor Corporation” responsible for the problem, is very important from the standpoint of realizing minority shareholder interests.

4　Partial revision of the Articles of Incorporation (disclosure of cost of capital)

(1) Summary of the Proposal

The resolution seeks to add the following Chapter and Article to the Company’s Articles of Incorporation.

(Underlining indicates the change）

Current Articles of Incorporation	Proposed Amendments
（New addition）	<u>Chapter 8</u>　<u>Disclosure of shareholders’ equity cost</u> <u>（Disclosure of shareholders’ equity cost）</u> <u>Article 45:</u>　<u>The Company shall disclose in the Corporate Governance Report submitted to the Tokyo Stock Exchange the calculation method and amount of shareholders’ equity cost which the Company ascertains within one month prior to the date of submission of the Corporate Governance Report.</u>

（2）Reason for the proposal (summary)

As mentioned above, the Company’s stock price is sharply below the 1x P/B level that corresponds to dissolution value putting it at a very low assessment with negative enterprise value. This is happening because ROE is not at the level requested by investors, or in other words, is not attaining capital cost from the shareholder perspective (shareholders’ equity cost). The cause is absence of capital allocation, and shareholders’ equity cost is an effective measure.

“Principle 5.2 Establishing and Disclosing Business Strategies and Business Plans” of the Tokyo Stock Exchange’s Corporate Governance Code stipulates “When establishing and disclosing business strategies and business plans, companies should articulate their earnings plans and capital policies, and present targets for profitability and capital efficiency after accurately identifying the company’s cost of capital. Also, companies should provide explanations that are clear and logical to shareholders with respect to the allocation of management resources, such as reviewing their business portfolio and investments in fixed assets, R&D, and human capital, and specific measures that will be taken in order to achieve their plans and targets.”

The Company hence should present shareholders’ equity cost as a “target for profitability and capital efficiency” and “provide explanations that are clear and logical to shareholders with respect to the allocation of management resources, such as reviewing the business portfolio and investments in fixed assets, R&D, and human capital, and specific measures that will be taken in order to achieve the target.” By doing this, the Company can foster active dialogue between the Company and shareholders and pursue improvement of low valuation of its shares in the market.

5 Share buybacks

(1) Summary of the Proposal

Based on provisions in Article 156, Paragraph 1 of the Companies Act, the Company shall purchase up to 15,183,700 shares or 7,925,890,000 yen of its own ordinary shares within one year of completion of the subject General Shareholders Meeting (though the upper limit shall be the total amount of allowable purchase value under the Companies Act if the “the Distributable Amount” defined by Article 461 of the Companies Act is less than the subject amount).

（2）Reason for the proposal (summary)

The Company has not disclosed its capital allocation policy, and it is unclear whether it is capable of converting to management that generates return in excess of capital cost. Considering the risk of continued erosion of enterprise value through rising capital cost from further expansion of shareholders’ equity due to retention of massive consigned fund management at Nissan’s group fund management company and the absence of a capital allocation policy, action on shareholder return to halt the adverse cycle of continued worsening of the Company’s capital efficiency would help protect minority shareholders.

Rectification of surplus capital is a pressing issue for the Company’s capital allocation. Shareholders’ equity cost presented on Bloomberg information terminals used by many institutional investors is 13.7% as of April 15, the latest reading. Meanwhile, the Company’s average ROE in the past 10 years is just in the 3% range, and the Company’s shareholders’ value and enterprise value have been steadily eroded.

The Company’s shareholders’ equity ratio is at an all-time high. It is not possible to rectify inefficient capital allocation in which ROE is lower than shareholders’ equity cost while preserving excess capital and above-mentioned low-return managed assets. Therefore, the Company’s P/B ratio is likely to continue at less than 1x unless the percentage of gross shareholder return value from dividend payments and share buybacks to market capitalization reaches at least the 13.7% shareholders’ equity cost.

The Company expect to pay a dividend of 13 yen per share in March 2022 with total value as 2.5% of the Company’s market capitalization as of April 15. The Company hence needs to conduct a share buyback that amounts to 11.2% of market capitalization in order to lift the percentage of gross shareholder return to market capital to the 13.7% shareholders’ equity cost. Meanwhile, as mentioned above, the Company has more than enough funds to implement share buybacks because the amount of money in consigned management to Nissan Group Finance that does not contribute to the Company’s core business equals 1.75x its market capitalization. As indicated in (1) above, this point proposes purchase of the Company’s ordinary shares using cash up to 15,183,700 shares or 7,925,890,000 yen that corresponds to 11.2% of market capitalization.