

## Reference Material

### Shareholder Proposals to Tokyo Radiator

#### No.1 Subject Matters

- (1) Appropriation of Surplus
- (2) Amendment of the Articles of Incorporation (1)
- (3) Amendment of the Articles of Incorporation (2)
- (4) Introduction of the restricted stocks compensation for directors (excluding outside directors)

#### No.2 Summary of Proposed Agendas and Reasons for Proposals

##### (1) Appropriation of Surplus

###### i. Summary of the proposal

Tokyo Radiator makes the appropriation of surplus as set out below.

If Tokyo Radiator itself submits the agenda concerning the appropriation of surplus at the OGM, this Agenda is additionally submitted as an agenda independent from and separate to the agenda submitted by Tokyo Radiator.

###### A) Type of assets to be distributed

Cash

###### B) Amount to be distributed per share

JPY 370

###### C) Matters on the allocation of dividend assets and the total amount

The total amount to be spent is JPY 5,323.53 million (the amount to be distributed per share is provided in B) above)

###### D) The day on which the appropriation of surplus becomes effective

The date when the OGM is held

###### E) The day on which the appropriation of surplus should be commenced

3 weeks after the date of the OGM

###### ii. Reason for the proposal

Since the fiscal year ended March 2007, when Tokyo Radiator completed the repayment of most of its debt, the balance of cash and cash equivalents has increased from JPY 0.3 billion to JPY 9.9 billion<sup>1</sup>, accounting for 134%<sup>2</sup> of its current market capitalization which is JPY 7.4bn. Despite this extraordinary excess of cash, the average of dividend payout ratio over the last 10 years was less

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<sup>1</sup> As of December 31, 2020.

<sup>2</sup> Market data as of February 19, 2021. Cash and cash equivalent as of December 31, 2020.

than 20%<sup>3</sup>, and there was no interim dividend paid to the shareholders for the fiscal year ended March 2021.

As Principle 1-3 of the Corporate Governance Code defines that “because capital policy may have a significant effect on shareholder profits, listed companies should explain their basic strategy of their capital policy,” it is extremely important to set a clear capital policy. However, Tokyo Radiator does not have a clear capital policy open to the public to resolve this extraordinary excess of cash, which contributes to the undervalued share price.

In addition, the huge deposit of about JPY 5.5 billion with Marelli Corporation (“Marelli”), the parent company of Tokyo Radiator, should be abolished due to conflicts of interest between the parent company and minority shareholders. Although the cash should be returned fairly to Tokyo Radiator’s shareholders, it is in effect controlled by the intentions of the parent company, and it can be said that Marelli is abusing its parental privileges at the expense of Tokyo Radiator’s minority shareholders.

In addition, AVI estimates the yield of this deposit to be about 0.4%<sup>4</sup>, and Tokyo Radiator considers this to be a high return, but this is far below a reasonable estimate of Tokyo Radiator’s cost of capital, and AVI is sure that Tokyo Radiator can contribute to enterprise value and to the common interests of shareholders by using this cash for either generating higher return from growth investment or through shareholder return.

At this point, Tokyo Radiator does not seem to have any plan to cancel the deposit nor does it have an investment plan that would require significant capital growth investments equivalent to the deposit, so AVI believes it is important to appropriately return this surplus to shareholders.

Therefore, as of the end of March 2021, Tokyo Radiator should pay a special dividend of JPY 370 per share (the total amount of special dividend is JPY 5,323.53 million<sup>5</sup> which is almost equivalent to the deposit with Marelli).

## (2) Amendment of the Articles of Incorporation

### i. Summary of the proposal

The Articles of Incorporation to be amended as follows (revised parts are underlined). As a result of the passing of any other proposals (including proposals made by Tokyo Radiator) at the OGM, if it becomes necessary to make any formal adjustment to the Articles set out as this proposal (including, but not limited to, the correction of misplaced article numbers), the Articles relating

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<sup>3</sup> Last 10 years from the fiscal year ended March 2011 to the fiscal year ended March 2020. The dividend payout ratio in the fiscal year ended March 2020 is excluded due to net loss.

<sup>4</sup> The yield is estimated based on the interest income from Marelli and deposit to Marelli in the fiscal year March 2020.

<sup>5</sup> The total amount of special dividend is calculated JPY 370 per share multiplied by the total shares outstanding (excluding treasury shares) as of December 31, 2020 in Tanshin Report of 14,387,917.

to this proposal shall be replaced by the Articles after making the necessary adjustment.

#### Chapter 1 General Rules

Article 1 to 3 [Unchanged]

(Structure)

Article 4 Tokyo Radiator has the following organizations in addition to the general meeting of shareholders and directors.

1. the Board of Directors
2. an Audit and Supervisory Committee
3. Accounting Auditors

Article 5 to 18 [Unchanged]

#### Chapter 4 Directors and Board of Directors, and Audit and Supervisory Committee

(Number of Members)

Article 19 The number of directors who are not members of the Audit and Supervisory Committee shall be less than 10 (including 10) and the number of directors who are members of the Audit and Supervisory Committee shall be less than 5 (including 5).

(Method of Appointment)

Article 20 Directors who are or are not members of the Audit and Supervisory Committee shall be separately appointed at the General Meeting of Shareholders of Tokyo Radiator.

(2) [Unchanged]

(Tenure)

Article 21 The tenure of a director who is not a member of the Audit and Supervisory Committee shall be expired at the end of the latest Ordinary General Meeting of Shareholders in relation to a fiscal year which is expired within one year after the appointment.

(2) The tenure of a director who is a member of the Audit and Supervisory Committee shall be expired at the end of the latest Ordinary General Meeting of Shareholders in relation to a fiscal year which is expired within two years after the appointment.

(3) The tenure of a director who is appointed as supplemented director who is a member of the Audit and Supervisory Committee shall be the same as the tenure of a resigned director who is a member of the Audit and Supervisory Committee.

Article 22 to 23 [Unchanged]

(Remuneration, etc.)

Article 24 Proprietary benefit such as remuneration, bonus or other consideration for the service which a director would receive from Tokyo Radiator shall be approved at the General Meeting of Shareholders by segregating the ones for directors who is members of the Audit and Supervisory Committee and those who is not.

(Convocation of the Board of Directors)

Article 25 In order to convene the Board of Directors, the notice shall be sent to each director by 3 days prior to the date of the meeting, provided, however, that such period can be shortened in emergency situation.

(Convocation of the Audit and Supervisory Committee)

Article 26 In order to convene the meeting of the Audit and Supervisory Committee, the notice shall be sent to each director who is a member of the Audit and Supervisory Committee by 3 days prior to the date of the meeting, provided, however, that such period can be shortened in emergency situation.

(2) The procedure to convene the meeting of the Audit and Supervisory Committee can be omitted if it is approved by all directors who are members of the Audit and Supervisory Committee.

Article 27 [Same as current Article 26]

(Delegation to directors)

Article 28 Tokyo Radiator may, by the resolution of the board of directors, delegate the determination of the execution of important business (excluding the matters provided in each items of Article 399-13, Paragraph 5 of the Companies Act) pursuant to Paragraph 6 of the said article of the Companies Act.

Article 29 [Same as current Article 27]

(Regulation of the Audit and Supervisory Committee)

Article 30 Other matters related to the Audit and Supervisory Committee shall be provided in the regulation concerning the Audit and Supervisory Committee established by the Audit and Supervisory Committee as well as laws and this Articles of Incorporation.

Article 31 [Same as current Article 28]

Article 29 to 36 [Deleted]

Chapter 5 Accounting

Article 32 to 35 [Same as current Article 37 to 40]

Supplementary clause

(Transitional provision of the exemption of liability of Statutory Auditors)

Tokyo Radiator may, by the resolution of the board of directors, exempt the liability for damage claim due to breach of duty of a statutory auditor (including a person who was statutory auditor) before the transition to a company with the Audit and Supervisory Committee to the extent provided by law.

ii. Reason for the proposal

Tokyo Radiator's board is currently structured under a statutory auditor system but in order to strengthen corporate governance and make speedy decisions, Tokyo Radiator should shift to an audit committee-style company.

By establishing the audit and supervisory committee, the committee members will be board members and exercise their voting rights. This will ensure the effectiveness of the supervisory function of the Board of Directors and strengthen the corporate governance.

In particular, Tokyo Radiator is a listed subsidiary and is in a position to consider fairness between Marelli, the parent company, and other shareholders. However, Mr Takashi Hayashi, Chairman, and Mr Hisao Ochiai, President, are from Marelli. The supervisory function of the board of directors should be strengthened beyond the current situation, as it needs to be careful about resolutions that may respect the interests of Marelli and harm the interests of other shareholders.

In addition, under the current structure the board agenda tends to get clogged with minor resolutions and reporting items, not leaving enough time to discuss long-term strategy and big-picture matters. By delegating part of the business execution authority of a director or director(s), it is possible to separate the business execution and supervision functions, make speedy decisions, and aim to improve the functionality of business execution.

(3) Amendment of the Articles of Incorporation (2)

i. Summary of the Proposed Agenda

Establishment of new Chapter 6 and current "Chapter 6 Accounting" should be amended to

“Chapter 7 Accounting” and the number of articles following Article 37 shall be amended by putting off by 5.

If the change of formality (including the change of the number of the Articles) is necessary due to the approval of other agenda (including agenda proposed by Tokyo Radiator), the number of Articles or other formality in the proposal shall be adjusted accordingly.

## Chapter 6 Nomination Committee and Compensation Committee

(Establishment of the Nomination Committee and the Compensation Committee)

Article 37 Tokyo Radiator shall have the Nomination Committee and the Compensation Committee as advisory bodies to the board of directors.

(Composition of the members of the Nomination Committee and the Compensation Committee)

Article 38 The majority of members of the Nomination Committee and the Compensation Committee shall, respectively, be composed of outside directors.

(Tenure and Appointment of members of the Nomination Committee and the Compensation Committee)

Article 39 The tenure of members of the Nomination Committee and the Compensation Committee shall be expired at the end of the latest Ordinary General Meeting of Shareholders in relation to a fiscal year which is expired within one year after the appointment.

- (2) Members of the Nomination Committee and the Compensation Committee shall be appointed by the resolution of the board of directors after the Ordinary General Meeting of Shareholders, provided that, if the appointment of such member is necessary due to the resignation of an existing member, etc., a new member can be appointed by the resolution of the extraordinary board of directors.

(Matters to be advised by the Nomination Committee and the Compensation Committee)

Article 40 The Nomination Committee shall deliberate the following matters upon the request for advice of the board of directors, and the board of directors shall decide these matters having high regard to the opinion of the Nomination Committee.

- (1) Determination of the draft of the agenda concerning the appointment and termination of directors which will be submitted to the General Meeting of Shareholders
- (2) Determination of the draft of the agenda concerning the appointment,

termination or allocation of the role of a representative director and other senior directors

- (3) Determination of the policy concerning appointment of directors
- (4) Other matters related to the appointment and termination of the office of directors

(2) The Compensation Committee shall deliberate the following matters upon the request for advice of the board of directors, and the board of directors shall decide these matters having high regard to the opinion of the Compensation Committee.

- (1) Agenda concerning the compensation which will be submitted to the General Meeting of Shareholders
- (2) Specific amount of compensation for each director
- (3) Other matters related to compensation for directors

(Regulations of the Nomination Committee and the Compensation Committee)

Article 41 Matters concerning the Nomination Committee and the Compensation Committee shall be provided by the regulations of the Nomination Committee and the Compensation Committee established by the board of directors, and applicable laws and the provisions of the Articles of Incorporation.

ii. Reason for the proposal

Tokyo Radiator adopts a discretionary process in which only the representative director selects candidates for the board of directors to be submitted to the general meeting of shareholders and determines the compensation of the directors. The Governance Committee, which consists of two outside directors, two outside corporate auditors, and two internal directors, consults on the basic policy for executive compensation and the appointment of directors, but given that all directors except Mr Atsushi Igarashi, who is an internal director, attend the Governance Committee, it is not differentiated from the Board of Directors and is reduced to a formality.

Significant decisions should be rationalized by leveraging the knowledge and views of outside directors to promote the interests of all of Tokyo Radiator's stakeholders, and a clear process must be introduced to that end.

Also, in Supplementary Principle 4.10.1 of the Corporate Governance Code, it is provided that "If the organizational structure of a company is either Company with board of auditors or Company with an Audit and Supervisory Committee and independent directors do not compose a majority of the board, in order to strengthen the independence, objectivity and accountability of board functions on the matters of nomination and remuneration of the senior management and directors, the company should seek appropriate involvement and advice from independent directors in the

examination of such important matters as nominations and remuneration by establishing independent advisory committees under the board, such as an optional nomination committee and an optional remuneration committee, to which independent directors make significant contributions”, the Corporate Governance Code requires the establishment of an independent advisory committee such as optional nomination committee or remuneration committee.

Therefore, the Proposer hereby proposes to establish a nomination committee and a compensation committee for each of which outside directors compose a majority of the committee.

#### (4) Introduction of the restricted stocks compensation for directors (excluding outside directors)

##### i. Summary of the Proposed Agenda

In addition to the annual compensation limit of JPY 200 million for directors, extra monetary remuneration up to JPY 13 million will be granted to directors (excluding outside directors) and the monetary compensation will be granted to these directors to be contributed for restricted stocks. Specific timing and allocation of remuneration shall be resolved by the board of director based. The number of shares with transfer restrictions granted annually shall be based on the point system which is based on the mid-to-long term company plan established by the compensation decision-making body, and the restricted stocks compensation shall be converted to cash only after the retirement of the position of a director.

##### ii. Reason for the proposal

Principle 4-2 of the Corporate Governance Code states, “The remuneration of the management should include incentives such that it reflects mid-to-long term business results and potential risks, as well as promotes healthy entrepreneurship,” and the Corporate Governance Code requests to have incentive remuneration for management.

However, in the fiscal year ending March 2020, the entire amount of Tokyo Radiator's executive compensation, and that fixed compensation was based on a system that comprehensively evaluated the previous year's increase or decrease in business performance and the degree of achievement of the plan, and reflected job responsibilities and results. In addition, on March 23, 2021, Tokyo Radiator announced the introduction of performance-linked remuneration. This performance-linked compensation is a system that reflects the performance evaluation of the previous year's consolidated sales and profits, and the achievement of individual and departmental performance targets, and the factors that determine the remuneration are not much different from the remuneration system with only fixed compensation.

Therefore, Tokyo Radiator should introduce the restricted stocks compensation for directors (excluding outside directors) up to an annual amount of JPY 13 million. The introduction of restricted stock-based compensation, which is linked to mid-to-long term business performance



of directors, will provide a healthy incentive for directors to continuously improve corporate value and promote further value sharing with shareholders. In addition, the restricted stocks compensation is a compensation system that guarantees transparency to shareholders.

The executives of Tokyo Radiator purchase a certain amount of shares every month for its directors through the director shareholding association. The Proposer believes that abolishing this share purchase program and incorporating the restricted stocks into the compensation system would be a better incentive for directors.