

Shareholder Proposal

AVI JAPAN OPPORTUNITY TRUST PLC, a fund managed by Asset Value Investors Limited (the “Proposer”), as a shareholder has held more than 1% voting rights among all voting rights or more than 300 voting rights of NS Solutions Corporation (“the Company”) continuously for more than 6 months prior to the date hereof. The Proposer requests that the proposed agendas described in item No. 1 below be the subject matters (“Proposed Subject Matters”) to the 42nd Ordinary General Meeting of Shareholders of the Company (“the 42nd Ordinary General Meeting of Shareholders”) which will be held in June 2022 in accordance with Article 303 (2) of the Companies Act, and hereby submits a shareholder proposal on the proposed agendas as outlined in item No. 2 below (“Proposed Agendas”). Therefore, the Proposer requests that the Company notify its shareholders of the content of the summary of the Proposed Agendas in accordance with Article 305 (1) of the Companies Act and Article 93 of the Enforcement Order of the Companies Act.

No. 1 Proposed Subject Matters

1. Partial amendments to the Articles of Incorporation (1)
2. Partial amendments to the Articles of Incorporation (2)
3. Partial amendments to the Articles of Incorporation (3)
4. Acquisition of treasury shares

No. 2 Summary of Proposed Agendas and Reasons for Proposals

1. Partial amendments to the Articles of Incorporation (1)

(I) Summary of the proposed agenda

It is proposed that the following new chapter to the current Articles of Incorporation be added, that “Chapter 7. Accounting” of the current Articles of Incorporation be changed to “Chapter 8. Accounting,” and that Article 31 and subsequent articles be moved down by two articles; provided, if other agendas (including agendas proposed by the Company) are adopted at the 42nd Ordinary General Meeting of Shareholders and the article set forth in this agenda requires adjustments formally (including, but not limited to changes to the article number), the article in this agenda shall read as the article after necessary adjustments.

Chapter 7. Special Investigation Committee
(Establishment of Special Investigation Committee)

Article 31 The Company shall establish a special investigative committee (“Special Investigation Committee”) for the purpose of investigating compliance-related matters such as sexual harassment and power harassment at the Company. The Special Investigation Committee shall be composed of members qualified as counsellors at law who are independent from the Company and Directors of the Company. The Special Investigation Committee must conduct investigations and disclose the results as an investigation report with remedial measures by September 1, 2022.

(II) Reasons for the proposal

The Proposer is committed to supporting the growth of business with a responsible approach to the environment, society, and governance (ESG), and carefully monitors the ESG performance of its portfolio companies. If it identifies any issues related to discrimination, harassment, and welfare of employees at the investee company, the Proposer will question the practices of the investee company and engage with management to make improvements.

The Proposer became aware of possible issues related to the Company’s employee welfare that cannot be overlooked considering the Proposer’s ESG policy. The Proposer conducted further detailed investigations on the human resources management of the Company (“Investigation”) as outlined below:

- (a) Analysed posts on several internet forums claiming that there have been cases of sexual harassment at the Company during the 15 years between 2007 and 2021.
- (b) In May 2017, a former female employee suffered from sexual harassment and was forced to take a leave of absence. Her employment was subsequently terminated, so she filed a lawsuit for wrongful termination and sought compensation. The Proposer read the trial records and conducted an analysis of the case.
- (c) Analysed posts on several internet forums claiming that there have been sexual harassments and power abuses at the parent company Nippon Steel Corporation over the eight years between 2013 and 2021.
- (d) The Proposer analyzed the HR-related data of the Company and conducted investigation and analysis on turnover rates and ratio of female employees appointed to managerial positions, etc.
- (e) The Proposer conducted interviews totaling 760 minutes with former employees of the Company regarding labour conditions, working environment, benefit programs for employees, and discriminatory treatment of foreign employees. As a result, many former employees claimed that they have either witnessed or suffered cases of sexual and power harassment, but that no detailed investigations were conducted.

As a result of these investigations, the Proposer concluded that there are serious concerns regarding the Company's ESG performance, particularly in the area of employee welfare. The number of employees leaving the Company has doubled over the past 5 years, and the turnover rate, especially among women has more than doubled.

To share its concerns regarding employee welfare and to encourage the Company to address these issues, the Proposer held a meeting with the executive officers of the Company in November 2021 and requested the Company to set specific targets for the wellbeing of employees, provide detailed disclosure of achievements and initiatives, and to set targets for the diversity and inclusion of employees (e.g. average length of tenure, % of non-Japanese managers, and ratio of promotions to management positions by ethnicity). However, the Company has failed to take actions in response to these requests.

In March 2022, the Proposer held a meeting with two Directors of the Company (one being an Outside Director) to inform the Company of the results of its investigations expressing the Proposer's deep concerns about the labour environment of the Company (in particular, response to sexual and power harassments), and stating that these issues could not be overlooked in light of Proposer's ESG policy. However, the Company claimed that sexual harassment and power harassment cases are appropriately dealt with on a case-by-case basis, and did not present any new specific action plans in response to the results of these investigations.

To follow up on this matter, the Proposer subsequently requested a meeting with the two other Outside Directors and Mr. Morita, Representative Director and President, but at the time of writing the request has not been accepted.

Considering the results of the investigations and the Company's response to this matter, the Proposer has come to believe that the Company is acting too slow in improving the wellbeing of its employees and addressing labor issues. As human resources are core to the success of the Company, the fact that the number of job leavers has almost doubled from 2015 to 2020 poses a major risk. To achieve effective and sustainable management of human resources, it is imperative for the Company to create a labour environment prioritising the wellbeing of employees. In particular, sexual harassment, power abuses, and discrimination against foreign employees must be thoroughly investigated and disciplinary actions taken against harassers. It is also crucial to develop an environment in which the victims are never neglected, prejudiced, nor criticized.

Therefore, as stated in this shareholder proposal, the Proposer proposes that the Company establish a Special Investigation Committee composed of independent committee members and that investigations on compliance-related matters such as sexual harassment and power abuse be conducted.

2. Partial amendments to the Articles of Incorporation (2)

(I) Summary of the proposed agenda

It is proposed that the following new chapter to the current Articles of Incorporation be added, that “Chapter 7. Accounting” of the current Articles of Incorporation be changed to “Chapter 8. Accounting,” and that Article 31 and subsequent articles be moved down by one article; provided, if other agendas (including agendas proposed by the Company) are adopted at the 42nd Ordinary General Meeting of Shareholders and the article set forth in this agenda requires adjustments in formality (including, but not limited to changes to the article number), the article in this agenda shall read as the article after necessary adjustments.

Chapter 7. Sales of Specified Equity Securities

(Sales of Specified Equity Securities)

Article 31 The Company shall make it a policy to reduce its specified equity securities in principle. Unless due to unavoidable circumstances, the Company shall sell or dispose all equity securities held as specified equity securities at fair value by March 1, 2023.

(II) Reasons for the proposal

In the Notice of the Opinion of the Board of Directors regarding Shareholder Proposal dated April 28, 2021, the Company responded that it has verified the economic reasonableness of its equity securities through comparison between the benefits and capital cost, and that it has been selling the shares of Recruit Holdings from the fiscal year ending March 2018, and will strive to improve corporate value while paying attention to capital efficiency.

However, the Company's stake in Recruit Holdings decreased only by about 20% in the past seven years, and the Company is the fifth-largest holder of cross-shareholding among listed Japanese companies with a market cap of 200 billion yen or more. The current level of cross-shareholding ratio (32.1%) does not meet either the proxy advisory firms ISS or Glass Lewis criteria of cross-shareholding, which might impact the Director's support ratio at the upcoming AGM.

Recruit Holdings, the largest cross-shareholder of the Company, states that “In principle, the Company’s policy is to reduce strategic shareholdings,” and that “If a company that holds shares of the Company as strategic shareholdings indicates the intention to sell the shares, the Company will do nothing to hinder the sale, such as indicating resulting reductions in business transactions between the companies,” and “the Company does not conduct business transactions that may harm the shared interests of the Company and its shareholders, such as continuing business transactions with companies that are strategic shareholders without adequately verifying the economic rationality of the transactions.”

From Recruit Holdings’ IR disclosure, it is obvious that Recruit Holdings makes decisions based on business benefits and economic rationale, and not on cross-shareholding. There is no rationale in cross-shareholding with Recruit Holdings.

For these reasons, the Proposer sent letters to the Board of Directors of the Company suggesting the disposal of its cross-shareholdings. In addition, the Proposer also shared with the Board of the Company the example of Toppan Inc.’s selling of 15 million shares of Recruit Holdings, which exceed the Company’s holdings, as well as of Recruit Holdings’ tender offer to purchase maximum 34,000,000 shares announced on 28 January 2022. However, the Board failed to utilise any of these opportunities to reduce the company’s cross-shareholdings.

The Board’s lack of aggressive actions over the past year to reduce cross-shareholdings clearly contradicts with the statements in the Company’s disclosure document dated April 28, 2021 which states that “We have also reviewed our shareholdings in Recruit Holdings and sold a cumulative total of 2,790,000 shares between the fiscal year ending March 2018 and March 2021,” and that “we are committed to achieving sustainable growth and enhancing our corporate value while paying due attention to capital efficiency.”

It should be noted that NTT Data Corporation (“NTT Data”), a peer of the Company, sold 19,700,000 cross-held shares of Recruit Holding for a total amount of 90,245,700,000 yen in March 2022.

In its disclosure of the purpose and quantitative effect of shareholdings, the Company merely states that “it is difficult to quantify benefits of holding,” which does not meet FSA’s fair disclosure rule, and does not allow investors to understand the effects of holdings. Moreover, except for a few words, the disclosure on the four issues of specific equity securities are simple “copy and paste” descriptions, and do not explain the situation and purpose of each holding.

The Proposer met with an Outside Director of the Company and asked his personal opinion. He expressed his opinion that “It is not necessary to keep holding these shares beyond strategic necessity, so I think the Company should gradually sell those shares that exceed strategic necessity, and should allocate them for growth investments, for the development of the Company. Personally, I don’t think these shareholdings have such major impacts on the current business transactions.” “Holdings beyond strategic necessity are certainly a waste of capital, so I personally think it is better to gradually feel around and reduce those shares, and to use them for growth investment.”

Therefore, the Proposer proposes that the Company shall establish a policy to reduce its specified equity securities in principle, and that, unless due to unavoidable circumstances, the Company shall sell or dispose all equity securities held as specified equity securities at fair value by March 1, 2023.

3. Partial amendments to the Articles of Incorporation (3)

(I) Summary of the proposed agenda

It is proposed that the following new chapter to the current Articles of Incorporation be added, that “Chapter 7. Accounting” of the current Articles of Incorporation be changed to “Chapter 8. Accounting,” and that Article 31 and subsequent articles be moved down by one article; provided, if other agendas (including agendas proposed by the Company) are adopted at the 42nd Ordinary General Meeting of Shareholders and the article set forth in this agenda requires adjustments in formality (including, but not limited to changes to the article number), the article in this agenda shall read as the article after necessary adjustments.

Chapter 7. Deposits with the Parent Company

(Prohibition of Deposits with the Parent Company)

Article 31 The Company shall not make deposits to the parent company, or any of its subsidiary or affiliated companies.

31-2 If any deposits exist, the Company must immediately recover such deposits.

(II) Reasons for the proposal

Cash equivalents and investment securities of the Company exceeded 170 billion yen in the most recent quarter, increasing at a rate of almost 13.6% per year over the past 12 years. They have not been returned to employees nor used for business investments, and remain sitting on the balance sheet. While the Proposer supports the Company’s policy to secure a sound financial base for business

growth and business risks, holding nearly 60% of the total assets in cash equivalents and investment securities cannot be justified from the perspective of capital efficiency.

In the Mid-term Business Strategy for FY2021-25, the Company plans an investment of 50-70 billion yen to strengthen business infrastructure, and also invest in human resources. However, the percentage of total salaries and benefits to net sales decreased by 0.2 percent points year-on-year as of FY2022/Q2. An investment of 10-15 billion yen for accelerating DX is also planned, but there has, so far, been no evidence of this.

Management argue that the Company will utilise its retained earnings to promote the Mid-term Business Strategy, but in reality, a major portion of its assets are allocated to deposits with the parent company and strategic shareholdings in certain client companies. Liquid assets of 171.9 billion yen, which are the total of approximately 78.6 million yen as deposits with the parent company, 83.1 million yen in investment securities (of which approximately 99% are shares of Recruit Holdings Co., Ltd.,) and other cash and equivalent, remain on the Company's balance sheet.

The Ministry of Economy, Trade and Industry "Practical Guidelines on Group Governance System" notes that deposits to the parent company may create specific situations where conflicts of interest may arise in listed subsidiaries, and calls "In situations where the following conflict of interest risks may materialize, the interests of general shareholders may be harmed. Therefore, it is necessary to give due consideration to the interests of general shareholders through the establishment of effective governance systems in listed subsidiaries." The Company receives an interest at a rate of about 0.2% for the deposits to its parent company, significantly lower than its cost of capital.

Therefore, the Proposer proposes to establish a policy not to make deposits, in principle, to the parent company, its subsidiary, or affiliated companies, and to immediately recover the current deposits.

(4) Acquisition of treasury shares

(I) Summary of the proposed agenda

It is proposed that, pursuant to the provisions of Article 156 (1) of the Companies Act, the Company acquire its common shares within one year from the conclusion of the Ordinary General Meeting of Shareholders to the maximum extent of 7,834,000 shares in total, 32 billion yen as total acquisition price (provided, however, that if the total amount of the acquisition amount falls below the "Distributable

Amount” provided in Article 461 of the Companies Act, the maximum amount of the acquisition amount shall be reduced to the amount permitted under the Companies Act.)

(II) Reasons for the proposal

This proposal assumes that the Company will buy back its treasury shares, not from public shareholders, but rather from the parent company, Nippon Steel by a discount TOB or other arrangements, thereby reducing the voting rights held by Nippon Steel to about 60%.

Firstly, in the Notice of the Opinion of the Board of Directors regarding Shareholder Proposal dated April 28, 2021, the Company stated that “We intend to continue acquiring treasury shares at the right time in a proper manner in light of improving capital efficiency and expeditiously achieving our capital policy.”

However, the parent company currently owns 63.4% of the Company’s outstanding shares. If the Company wishes to remain on the Prime Market where the continued listing criteria requires a free float of above 35%, a share buyback that involves acquiring treasury shares from public shareholders is not an option. Specifically, a buyback of approximately 2.4% or greater would breach the TSE Prime Market criteria.

In response to an inquiry directed to the parent company Nippon Steel, the IR Office commented: “While a share buyback is one means to return capital to shareholders, we believe that improving corporate value through sustainable earnings growth will lead to improving shareholder value.”

According to this response, Nippon Steel seems to be fully aware that, by maintaining the current holding of 63.4% of the Company’s outstanding shares, it is depriving the Company of the option of returning to shareholders through a share buyback, and believes that its subsidiary should improve shareholder value through sustainable earnings growth.

Comparing the Company’s total payout ratio to other companies in the IT service industry, the Company’s total payout ratio for the fiscal year ending March 31, 2021 was about 33%. This is almost 28% lower than the average for other companies’ payout ratio in the industry, which is about 45%. Looking at the breakdown, 38% of the payout ratio for other companies in the industry is dividends and 8% is share buybacks, while 33% of the payout ratio for the Company is dividends and no share buybacks are being conducted. This clearly shows that the current extremely high shareholding ratio of the parent company is depriving general shareholders of the opportunity to receive shareholder returns

comparable to those of other companies in the industry by preventing further share buybacks from general shareholders on the premise that the company will remain in the prime market.

In addition, according to posts on an Internet message board, a former employee commented, "Since the parent company's shareholding ratio is also high, we need the parent company's approval, including the necessary groundwork, before taking on any new challenges, including investments," "The capital relationship with Nippon Steel should be weakened. We do not have enough decision-making authority to adopt our own growth strategy," and "At the time of our founding, we clearly declared that there would be no assignment of personnel from our parent company, Nippon Steel, but that has not been the case anymore."

Furthermore, due to the extremely high shareholding ratio of the parent company, it is necessary to closely monitor whether the personnel arrangements for the Company's directors are designed to respect the interests of general shareholders to the maximum extent. Director Funakoshi Hirofumi, the new internal director who joined the Company in 2021, previously served as a Senior Executive Director of the parent company. Nippon Steel responded to the Proposer's inquiry as follows: "His work experience in our company has been mainly in the human resources, general affairs and corporate planning departments and he has no experience in a department specialising in IT services. He has no experience in the IT services industry outside Nippon Steel, either. We understand that the skills expected of a director of NSSOL are not having an experience in the IT services industry, but skills in business management, human resources, labour policy and human resources development."

However, over the past 8 years from 2013 to 2021, there are posts on several internet forums claiming that there have been sexual harassments and power abuses at Nippon Steel. Moreover, in June 2021, it was revealed that a then male employee in charge of human resources at Nippon Steel had engaged in inappropriate behaviour, including pressuring a female prospective employee into a sexual relationship. As such, from the perspective of building a sustainable labour environment for the Company's employees, it is inconceivable that the best choice for "human resources, labour policy and human resources development" is a descended appointment from Nippon Steel.

If the Company acquires its own shares through a discount TOB or other means from the parent company, it will be possible to reduce the parent company's shareholding ratio to a certain degree, thereby eliminating to a certain extent potential conflicts of interest with minority shareholders, such as opportunities to return profits to shareholders. This will also lead to the Company's shareholders being able to enjoy sustainable opportunities for shareholder return in the future.

Therefore, the Proposer proposes that the Company undertake a share buyback of 7,834,000 shares in total from the parent company Nippon Steel through a discount TOB or other arrangements within one year from the conclusion of the 42nd Ordinary General Meeting of Shareholders.

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