

**NS Solutions Corporation  
Taking NS Solutions to the Next Level**

**Asset Value Investors Limited**

16 May 2022

# For Sustainable Corporate Value Enhancement of NS Solutions

Asset Value Investors Limited ("AVI" or "we") is one of the largest minority shareholders of NS Solutions Corporation ("NS Solutions"), holding 1,112,900 shares, representing 1.2% of the voting rights.

Since the start of our investment over two years ago, we have engaged in dialogue with the internal and external directors of NS Solutions to suggest ways in which to sustainably enhance corporate value. We have identified serious concerns regarding sexual harassment, power harassment, distorted allocation of capital resources e.g., deposits with the parent company Nippon Steel Corporation ("Nippon Steel") and large strategic shareholdings, high employee turnover, operational underperformance, and a significant valuation discount compared to peers. We have raised these issues with both internal and external directors of NS Solutions. However, many of AVI's suggestions have not been implemented and the management of NS Solutions has shown little willingness to fully consider all stakeholders nor to make efforts to maximise corporate value in a sustainable manner.

Last year, NS Solutions stated in the Opinion of the Board of Directors regarding Shareholder Proposal released on 28th April 2021, "We plan to actively engage in DX acceleration and investments and loans including M&A. We believe that utilising retained earnings to promote our medium-term business plan will help us maintain and strengthen our competitiveness in the future." However, NS Solutions' retained earnings have been increasing steadily over the past year, and these have not been returned to its employees, general shareholders, nor used for business growth investments such as M&A. Instead, 90.2 billion yen of cash has been deposited to the parent company at an interest rate of approximately 0.2%, far below NS Solutions' cost of capital.

Since 2020, we have been engaging in dialogue with NS Solutions' management sending presentations and letters to convey our views on how to sustainably enhance corporate value. However, the contents of our proposals have not been taken seriously and management has shown little willingness to take action to address issues relating to employee welfare, the unbalanced allocation of balance sheet capital by way of a cheap loan to Nippon Steel, a relationship-based investment in Recruit HD, lack of growth investment and low return of profits to employees. We, therefore, concluded that to fulfil our fiduciary duty to enhance the corporate value of our investments, we had to take our arguments into the public domain. We have decided to publish this presentation to allow other shareholders to better recognize NS Solutions' issues and to hold the Board of Directors accountable for its failure to act in consideration of all stakeholders, including its employees and minority shareholders.

# NS Solutions' Shareholder Structure

- AVI is the second largest shareholder excluding the parent company and NS Solutions employee stock ownership plan<sup>1</sup>

Name of shareholders	Voting Rights Ownership (%)	Market Value (JPY bn)	No. of shares ('000)
Nippon Steel Corp.	63.4%	1,991	58,033
Massachusetts Financial Services Co.	3.7%	116	3,380
NSSOL employee stock ownership plan	2.3%	72	2,104
<b>Asset Value Investors Ltd.</b>	<b>1.2%</b>	<b>38</b>	<b>1,113</b>
Nomura Asset Management Co., Ltd.	1.2%	36	1,054
Diawa Asset Management Co. Ltd.	1.0%	31	911
The Vanguard Group, Inc.	0.9%	28	810
Norges Bank Investment Management	0.6%	17	509
Orbis Investment Management Ltd.	0.5%	16	461
Eurizon Capital SGR SpA	0.5%	15	440
Nikko Asset Management Co., Ltd	0.5%	15	433
BlackRock Fund Advisers	0.5%	14	416
Wellington Management Co. LLP	0.4%	13	385
Mitsubishi UFJ Kokusai Asset Management	0.3%	9	262
Marathon Asset Management.	0.3%	8	230

Note 1: Prepared by AVI based on the Factset database (as of Mar 7, 2022). Percentages of voting rights held are calculated using the denominator, which is the number of shares issued (91,501,000 shares) minus the number of treasury shares (798 shares) stated in the latest quarterly report as at Mar 7, 2022.  
Source: Factset, AVI

# NS Solutions' Response to AVI Suggestions

- Although some of the suggestions by AVI to enhance corporate value have been responded to, there has been little progress in many of AVI's suggestions

## Key recommendations to enhance corporate value

## Progress

Strengthening DX/Cloud and expanding alliances

- Further improvement in Investor Relations
- Disclosure of targets in growth areas (e.g., DX)
- Disclosure of Mid-Term Plan

Company with an Audit and Supervisory Committee

Stock-based compensation for directors to strengthen alignment between management compensation and corporate value enhancement

Bold DX growth investment of 50 billion yen (over the Mid-Term Business Strategy period)

More disciplined capital policy through rationalization of liquidity such as cash and deposits and strategic shareholding

Improvement of liquidity ratio through share buy-back from parent company

Emphasises and invest in employees, the cornerstone of NS Solutions business and ensure employees are treated fairly



Accelerating cloud partnerships as a "First DX Partner," including CSP<sup>1</sup> certification for Oracle Cloud

Disclosure of Mid-Term "Business Strategy." Set target of 10+% growth in growing areas with DX needs

Introduced since 2021

Introduction of share-based compensation plan with restriction on transfer resolved by BOD on Mar 30, 2022 to be presented at the 42nd AGM

The company states that it will "aggressively pursue investments and loans for DX acceleration and M&A." However, there are no notable M&A investments.

The company announced its intention to sell Y20bn of cross-shareholdings, but this is only less than a third of the cross-shareholdings, will take three years to achieve and the proceeds will not be used for shareholder returns

The company says that it will "closely monitor the ratio of tradable shares" and "pay attention to capital efficiency" while "working to increase corporate value," but there has been no improvement in free float or in capital efficiency

Working Environment Transformation and D&I Group is active, but there is no new action by management to further improve the working environment for employees

# Summary of AVI's Suggestions

- **Promptly initiate discussions with the parent company to reduce the parent company's percentage of voting rights to about 60%<sup>1</sup> through a share buy-back of 7,834,000 shares from the parent company Nippon Steel via a discounted TOB or other arrangements within one year from the conclusion of the 42nd Ordinary General Meeting of Shareholders in June 2022.**
- **Establish a policy to reduce strategic shareholdings, and unless due to unavoidable circumstances, sell or dispose of all strategic shareholding at fair value by 1st March 2023.**
- **Establish a policy not to make deposits to the parent company, its subsidiary, or affiliated companies, and to immediately recover the current deposits.**
- **Establish a special investigative committee (“Special Investigation Committee”) for the purpose of investigating compliance-related matters such as sexual harassment and power harassment at NS Solutions. The Special Investigation Committee shall be composed of members of qualified lawyers who are independent from both NS Solutions and the Directors of NS Solutions. The Special Investigation Committee must disclose of its investigation by way of a report, including remedial measures by 1st September 2022.**

Note 1: Assuming 58,033,800 shares held by the parent company (as of Mar 31, 2021), 91,501,000 outstanding shares of NS Solutions (as of Feb 10, 2022), and 700 shares of treasury shares (as of Dec 31, 2021)

- 1 NS Solution's Evaluation by the Market
- 2 Suggestions for Sustainable Corporate Value Enhancement
- 3 Summary of Suggestions

## Agenda

# NS Solutions Mid-term Business Strategy

- AVI supports NS Solutions' policy to divert away from its inactive investment policy and make intensive investments for sustainable growth, provided figures are more aggressive

## Investment for growth

### **Investment to strengthen business infrastructure 50~75 billion yen**

Human resources (acquisition and training of excellent human resources), research and development, creation of new solutions, business development, improvement of IT environment, capital investment, etc.

### **Investment for accelerating DX 10~15 billion yen**

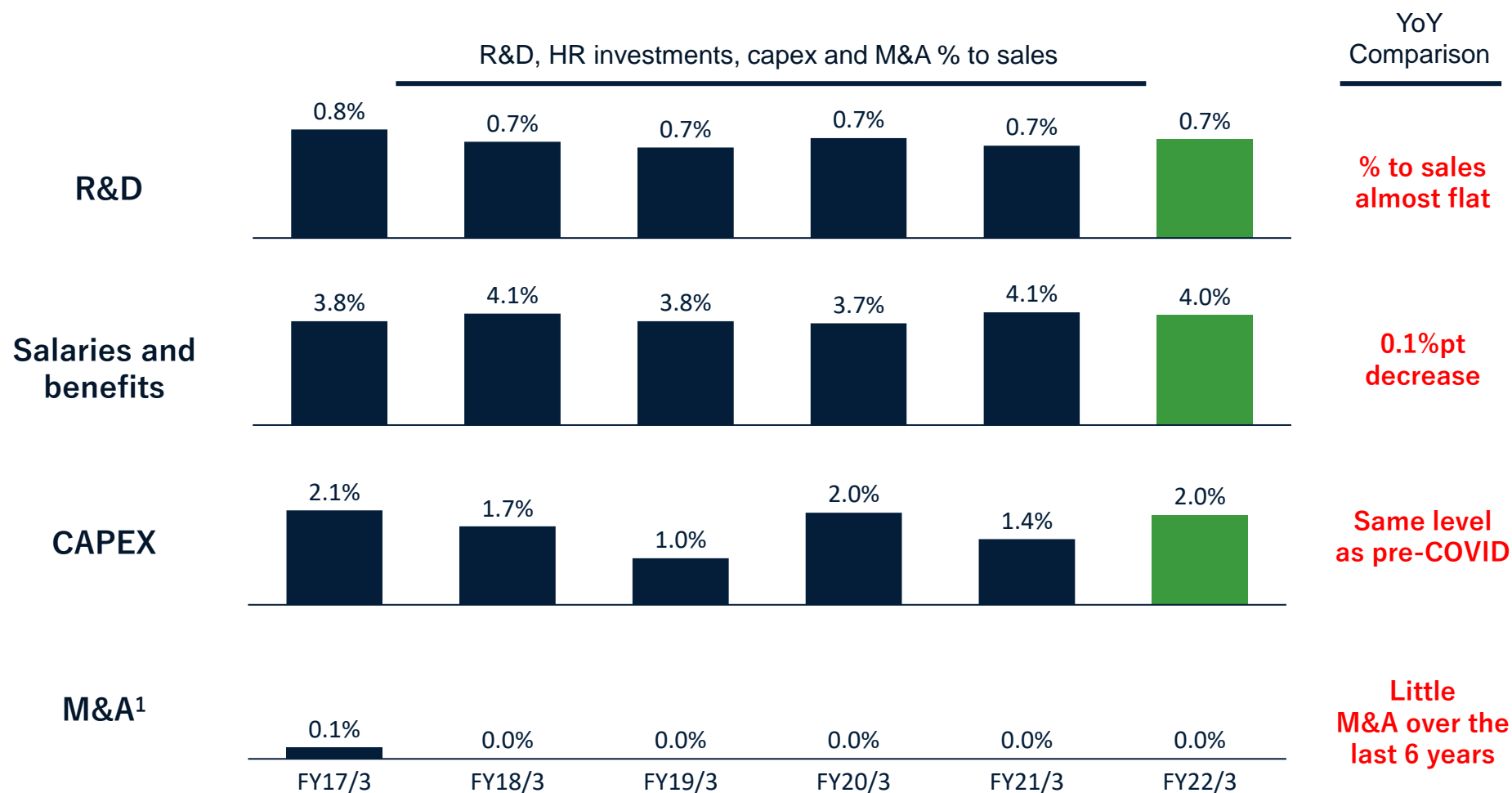
Intensive investments to accelerate DX, focusing on intensive training of DX personnel, expansion of IT equipment, and promotion of challenges in new domains and businesses.

### **M&A and others**



# Progress of NS Solutions Mid-term Business Strategy

- One year has passed since the start of the mid-term business strategy, and there are no significant investments compared to last year e.g., salaries and benefits decreasing 0.1% pt. compared to sales






# Employees' Voices Expecting Further HR Investments




- While many are attracted to NS Solutions' growth opportunities, some feel challenged by seniority-based evaluation and low rate of salary increase above a certain tenure




**We have an excellent team of people. We have also made a special effort to train our people.**

(Manager (current), 3~5 yrs, Jun 2019)




**I find it rewarding to work in an environment where I can participate in large scale projects as a prime system integrator, with the role such as a team leader or a project manager.**

(Engineer (current), ~3 yrs, Apr 2021)




**HR system needs to be reformed: the treatment of employees up to the age of ~30 is not bad, but beyond a certain point in their careers, the rate of pay increase is suppressed, and those who notice this are the ones who leave the company.**

(Project Manager (current), 10~15 yrs, Nov 2021)



**Salary is based on seniority, and rewards for work are given in the form of new jobs. Even people who are at a lower level than you may be paid more.**

(Corporate, 5~10 yrs, Jan 2021)



**The company should not give age-based treatment to employees, but should give higher ratings to those whose work requires advanced knowledge and abilities and who have achieved great business results.**


(Project Manager (current), 10~15 yrs, Nov 2021)



# Employees' Voices Expecting Investments in DX Growth




- Greater expectations among employees for bold strategic DX investments including M&As




**Strategic investments should be made. We want a multifaceted approach, including collaboration with venture companies and M&A. The company should change its business model from that of a typical system integrator that has been around for a long time.**

(Sales (current), ~3 yrs, Jul 2020)



**NSSOL seems to be aiming to be the First DX Partner, but I feel that NSSOL today is still in the realm of traditional SI business.**

(Project Manager, 10~15 yrs, Jan 2021)



**I would like to see the management do more than just talk about new business initiatives.**

(Corporate, 5~10 yrs, Feb 2021)



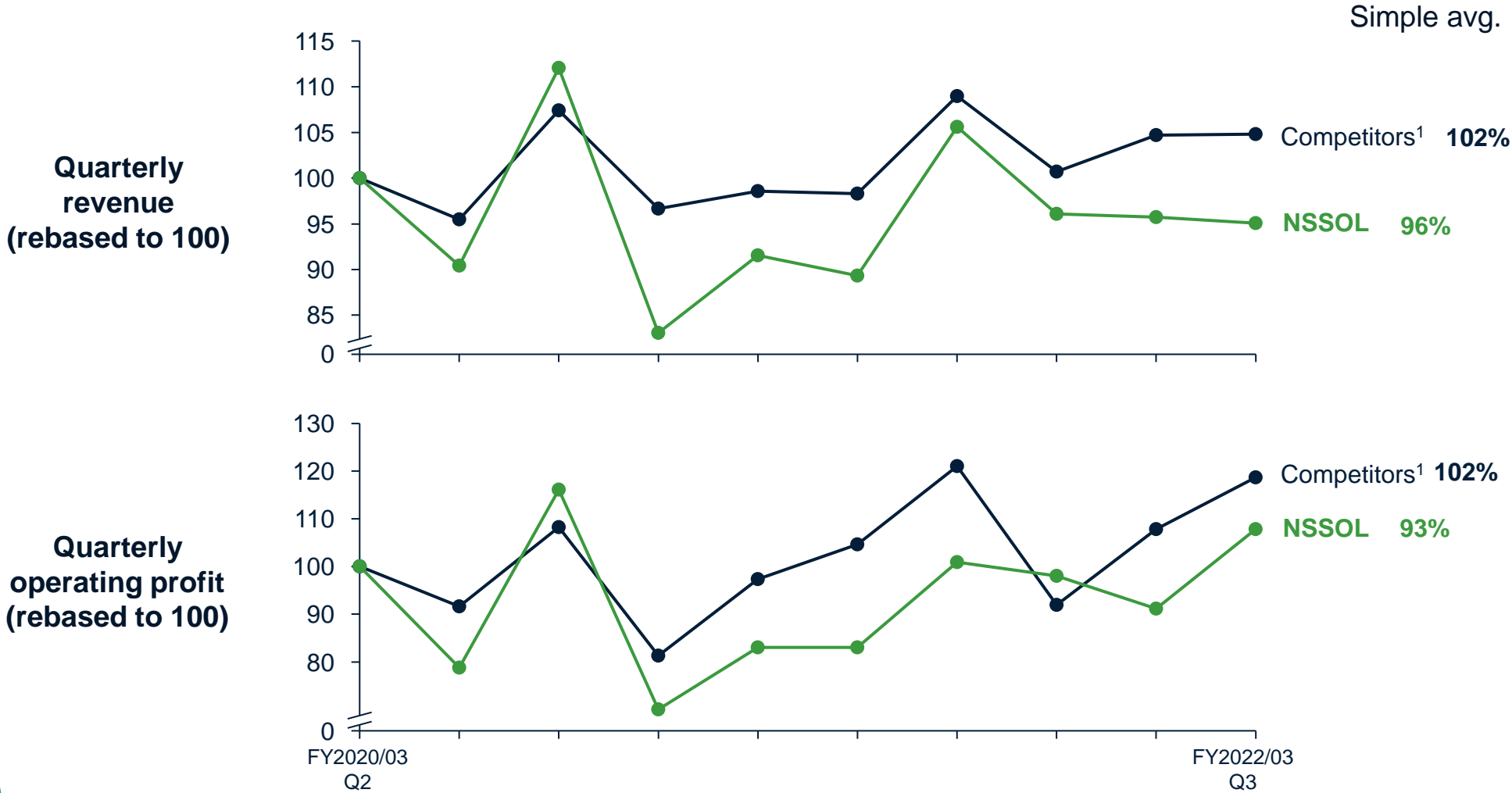
**I think major SI companies such as NSSOL should be looking for and developing the next SI business model.**

(Distribution (current), 3~5 yrs, Mar 2019)



# Sales and Operating Profit Trends Comparison (Index)

- NS Solutions' performance over the last two-and-a-half years trails below that of competitors



Note 1: Median of competitors including Fujitsu, NTT Data, Otsuka, Nomura Research Institute, Itochu Techno-Solutions, TIS, SCSK, BIPROGY, FUJISOFT, NSD, DTS, Future, Net One Systems, Dentsu International Information Services  
Source: SPEEDA, AVI

# Involvement in Fictitious Circular Transactions

- Over a six-year period between FY2014-2019, transactions of 29 cases in total with sales amounting to 42.9 billion yen were found to have been improperly accounted for as circular transactions

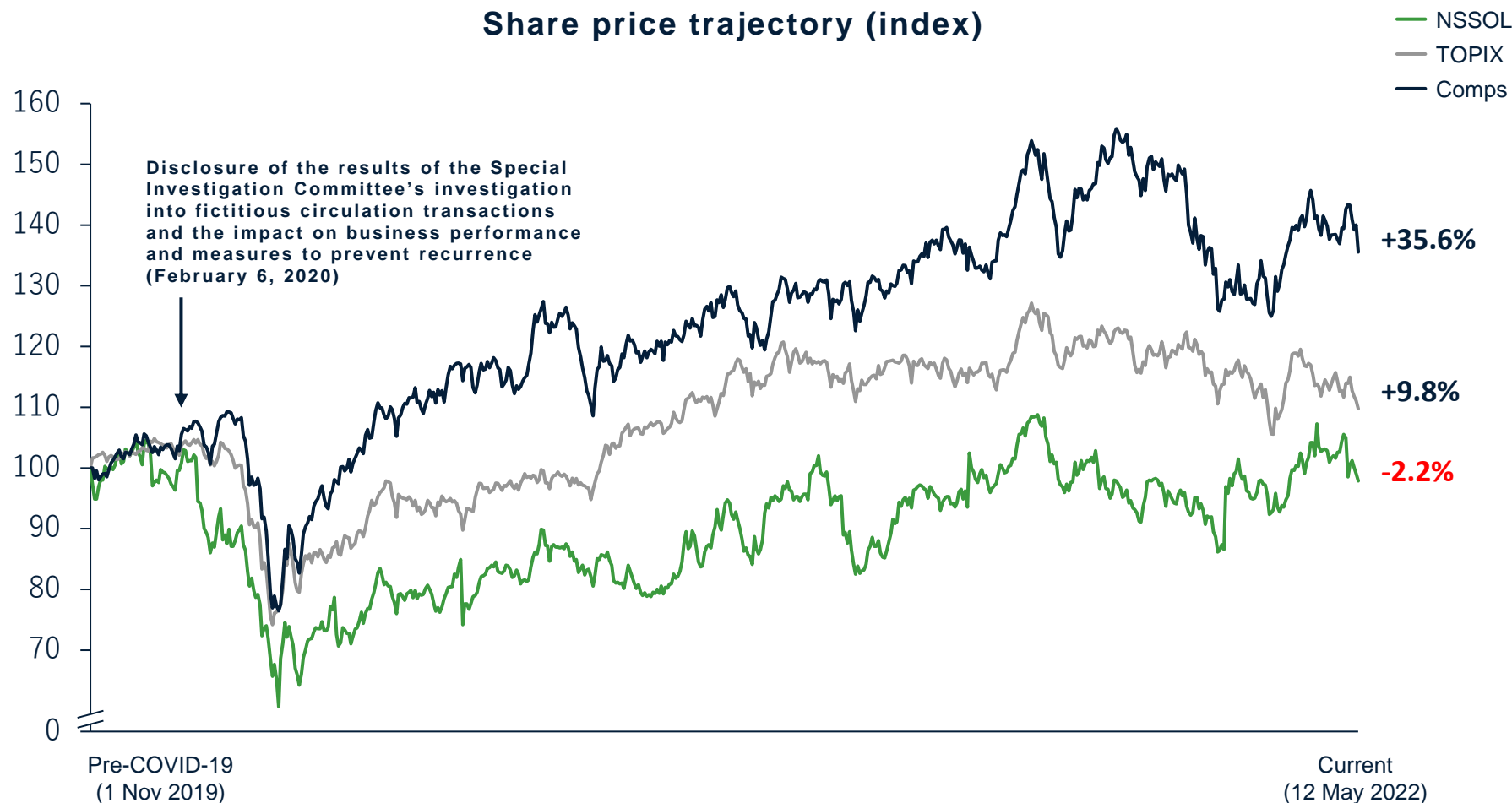
(rounded down to nearest JPY100mn)

(Fiscal year)	(No. of transactions) 【取引件数】	(Revenue) 【売上金額】 (JPY100mn)	(COGS) 【売上原価】 (JPY100mn)	(Profit) 【取引利益】 (JPY100mn) (億円未満切捨て)
2019年度	4件	134億円	125億円	9億円
2018年度	4件	106億円	99億円	6億円
2017年度	9件	133億円	125億円	8億円
2016年度	7件	46億円	43億円	2億円
2015年度	1件	1億円	1億円	0億円
2014年度	4件	6億円	6億円	0億円
合計 (Total)	29件	429億円	402億円	27億円

**“We take this situation very seriously, and again deeply apologize to our shareholders and all other concerned parties for any inconvenience and concern this may have caused. We will do our utmost to prevent a recurrence of this incident in order to restore confidence in our company, and we ask for your understanding in this matter.” (February 6, 2020)**

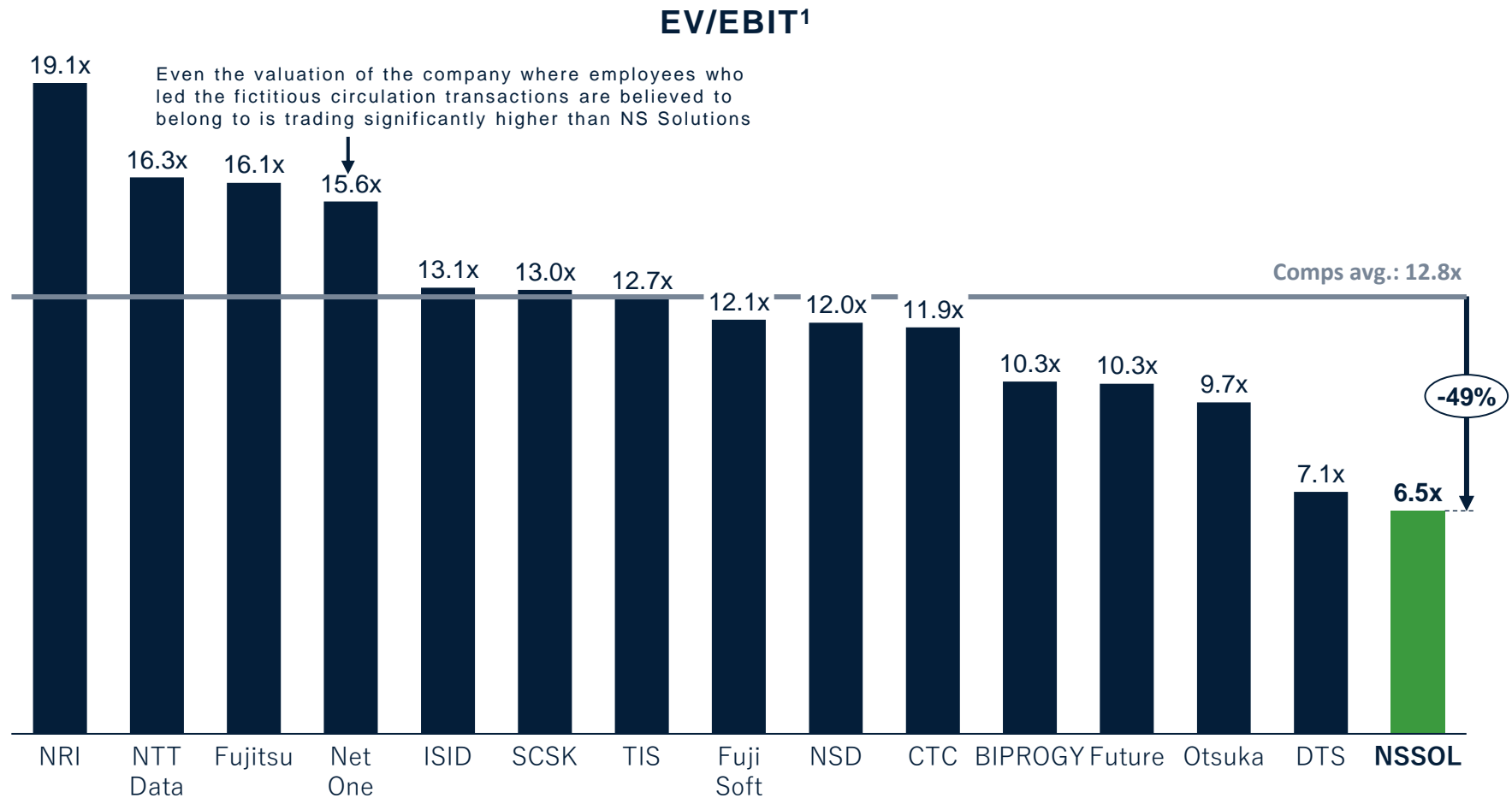
# Share Price Performance

- It is extremely disappointing that NS Solutions' share price remains lower than it was two and a half years ago, well below TOPIX and IT services sector peer group average



# Comparison of Valuations in the IT Service Sector

- NS Solutions' valuation is at a discount of close to 50% to the peer average



Note 1: As of May 12, 2022, based on the most recent 12-month operating income. After-tax securities are included in cash equivalents.  
Source: SPEEDA, AVI

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# Asset Value Investors' ESG Policy



- AVI is committed to supporting businesses that will grow and participate in the prosperity of the economy with a responsible approach to the environment, society, and governance (“ESG”).
- The ESG team at AVI reports directly to the director in charge of ESG activities and is responsible for supporting the implementation of AVI’s ESG policy and incorporating ESG considerations into the entire investment process.
- Based on publicly available information, we conduct research to carefully monitor the ESG performance of our portfolio companies. Diversity, inclusion, and employee well-being are important themes of this research. Where issues are identified, we will question the practices of the investee company and engage with management to drive positive change.





# Investigation on NS Solutions Employees' Working Environment, Particularly on Sexual & Power Harassment

Through such monitoring of our portfolio companies, we became aware of possible issues related to NS Solutions' human resources management that could not be overlooked in light of our ESG policy and we therefore conducted further research and an in-depth investigation into human resources management and employee welfare at NS Solutions ("Investigation") as outlined below:

1. Analysed posts on several internet forums claiming that there have been cases of sexual harassment at NS Solutions during the 15 years between 2007 and 2021.
2. A former female employee at NS Solution was a victim of sexual harassment and was forced to take a leave of absence, and her employment was subsequently terminated, so she filed a lawsuit in May 2017 for wrongful termination and sought compensation. AVI read the trial records and analysed the case.
3. Analysed posts on several internet forums claiming that there have been incidents of sexual harassment and power abuse at the parent company Nippon Steel Corporation over the eight years between 2013 and 2021.
4. Analysed NS Solutions' HR-related data and conducted research and analysis into turnover rates and ratio of female employees appointed to managerial positions, etc.
5. Conducted interviews totalling 760 minutes with former employees of NS Solutions regarding labour conditions, working environment, benefit programs for employees, and discriminatory treatment of foreign employees. During these interviews, many former employees claimed that they have either witnessed or experienced incidents of sexual harassment and power harassment, but that no detailed investigations were conducted.

# AVI's Investigation (1)

- AVI analysed posts on several internet forums claiming that there have been cases of sexual harassment at NS Solutions during the 15 years between 2007 and 2021

2007

**“The disdain for women was quite considerable, and the sexual harassment has been severe. Even those who were transferred from Nippon Steel, the parent company, spent their time acting like lords.”**

*(Late 20s; female)*

2016

**“I decided to leave the company after being traumatized by too much work, being expected to work many hours of overtime, and not being able to cope with the sexual harassment by my superiors.”**

*(Early 20s; female)*

2019

**“There were cases of sexual harassment at drinking parties, which resulted in personnel actions.”**

*(Section manager class; male)*

2021

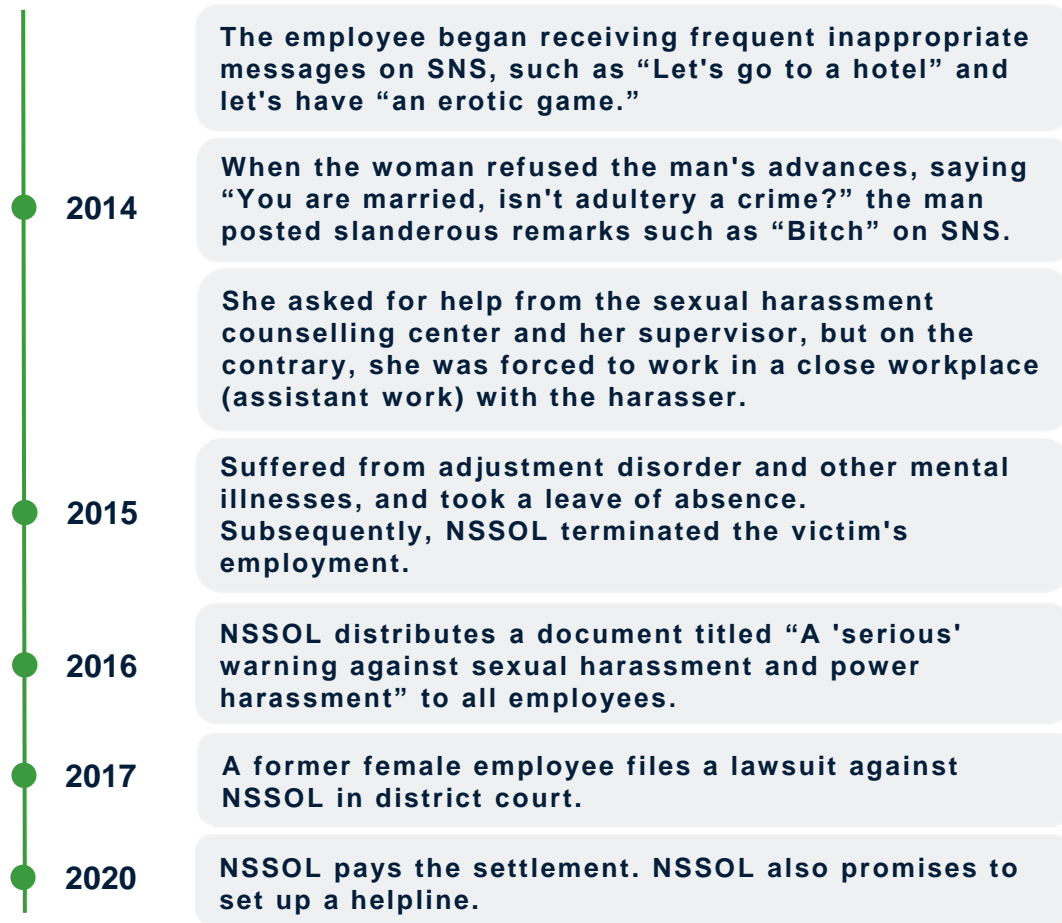
**“There is a lack of awareness of sexual harassment, especially among those in their 40s and older.”**

*(Senior manager class; male)*

The following comments were posted anonymously on Internet bulletin boards. As such, in conducting the investigation, AVI has not verified whether the persons posting these posts are in fact employees or former employees of NS Solutions, nor has it verified the credibility or accuracy, etc. of the content of the posts. Therefore, AVI hereby notes that AVI does not necessarily acknowledge nor makes any guarantee that the results of the Investigation are true or accurate.

## AVI's Investigation (2)

- 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. AVI read the trial records and conducted an analysis of the case



Initially offered 300,000 yen in consolation money by the company in 2015 and 900,000 yen in settlement money in 2017, but chose the option of filing a lawsuit because she had to pay nearly 1 million yen in out-of-pocket medical expenses alone.

The information is based on the content of an article by BuzzFeed Japan. AVI has not verified the credibility or accuracy, etc. of the content of said article (including the claims made by the woman who claimed to be the victim). Therefore, AVI hereby notes that AVI does not necessarily acknowledge nor makes any guarantee that the content of the article is true or accurate.

Source: BuzzFeed Japan (<https://www.buzzfeed.com/jp/kazukiwatanabe/20170525>), trial records

## AVI's Investigation (3)

- AVI 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 nine years between 2013 and 2021

**“On June 18, 2021, it was revealed that a then employee in charge of human resources at Nippon Steel Corporation had engaged in inappropriate behaviour, including pressuring a female prospective employee into a sexual relationship. The woman was scheduled to join the company in May 2021 but has not been able to join due to emotional distress.**

**The former male employee was working at the Kashima district of East Japan Steel Works (Kashima City, Ibaraki Prefecture). In an interview with the Japan Daily News (“Mainichi Shimbun”), Nippon Steel said, “We take this situation very seriously and have taken strict disciplinary action (disciplinary dismissal) against the employee in question. We will strengthen and thoroughly implement measures to prevent the recurrence of such an incident so that it will never happen again.”**

- A male Nippon Steel employee in his 60s misused his position as a recruiter by inviting the prospective employee to have dinner using messenger service (“LINE”), pressuring her into a sexual relationship, and sending messages such as, “If you refuse, we will cancel the job offer lol.”
- The woman developed habits such as washing her hands and gargling repeatedly (due to emotional distress). She also began to show depressive symptoms such as depression, fatigue, palpitations, suicidal ideation, and difficulty concentrating.
- The parents of the female victim said, “We absolutely cannot forgive the treatment our daughter received. At the very least, someone in an appropriate position at the head office should have come to apologize.” “It was an unusual response, and I didn't feel like they were really apologizing. They even offered to settle the matter with money, which didn't seem sincere at all.”

AVI has not conducted any fact-checking whatsoever on the sexual harassment case in June 2021 by a then male employee in charge of human resources (hereinafter, “Parent Company Case in 2021”), including verifying the perception of the actor, the opponent, or related parties through direct interviews or otherwise. Furthermore, AVI has not conducted any factual finding whatsoever on the content of the coverage by the press and other media. Therefore, AVI hereby notes that AVI does not necessarily acknowledge nor makes any guarantee that the content of the article is true or accurate.

## AVI's Investigation (3), Cont'd



- AVI 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

2013

**“Our company is a male-dominated society, so there is a lot of sexual harassment, and many of our female employees are used to being sexually harassed.”**

*(Early 20s; Male)*

2018

**“There is sexual harassment in some departments, and I would like to see something done about it.”**

*(Early 20s; Female)*

2019

**“There was some sexual harassment. I heard that a woman's breasts were squeezed, her buttocks were touched, etc. I also heard various other things. I still think that the old system has not been fully improved.”**

*(Early 30s; Male)*

2021

**“Sexual and power harassment by co-workers at an unruly level are commonplace, and even though we reported it to the company's Compliance Office, nothing changed in the end, and overtime work increased due to the shortage of personnel as younger workers are leaving the company at an increasing rate. It is mentally and physically draining on a daily basis.”**

*(Early 30s; Male)*

The above comments were posted anonymously on Internet bulletin boards. As such, in conducting the investigation, AVI has not verified whether the persons posting these posts are in fact employees or former employees of NS Solutions, nor has it verified the credibility or accuracy, etc. of the content of the posts. Therefore, AVI hereby notes that AVI does not necessarily acknowledge nor makes any guarantee that the results of the Investigation are true or accurate.



## AVI's Investigation (3), Cont'd



- AVI 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

**"Many supervisors are power-harassers. I saw them abuse newcomers in a large room as if they were making an example. In general, there are many people with an athletic temperament, and you have to have a very high stress tolerance to do the job."**

  
**20s; Female**

**"I often see people with a prehistoric way of thinking whose sense of ethics regarding power harassment, sexual harassment, etc. is out of step with the times."**

  
**20s; Male**

**"There are people who harass others at a level that makes one question their character, and when victims raise the issue, their supervisors do not act because they are also habitual power harassers. No one is able to crack down on the harasser."**

  
**20s; Male**

**"The supervisor is also under strong pressure from a more senior supervisor, so he comes to collect the results even if he has to power-harass his subordinates. It seems to me that unless you have a strong heart, you are at high risk of getting sick."**

  
**20s; Male**

**"The work environment is poor, and it is very hard to believe that the work atmosphere is open and comfortable. There is a lot of power harassment and moral harassment, and I feel mentally trapped."**

  
**20s; Male**

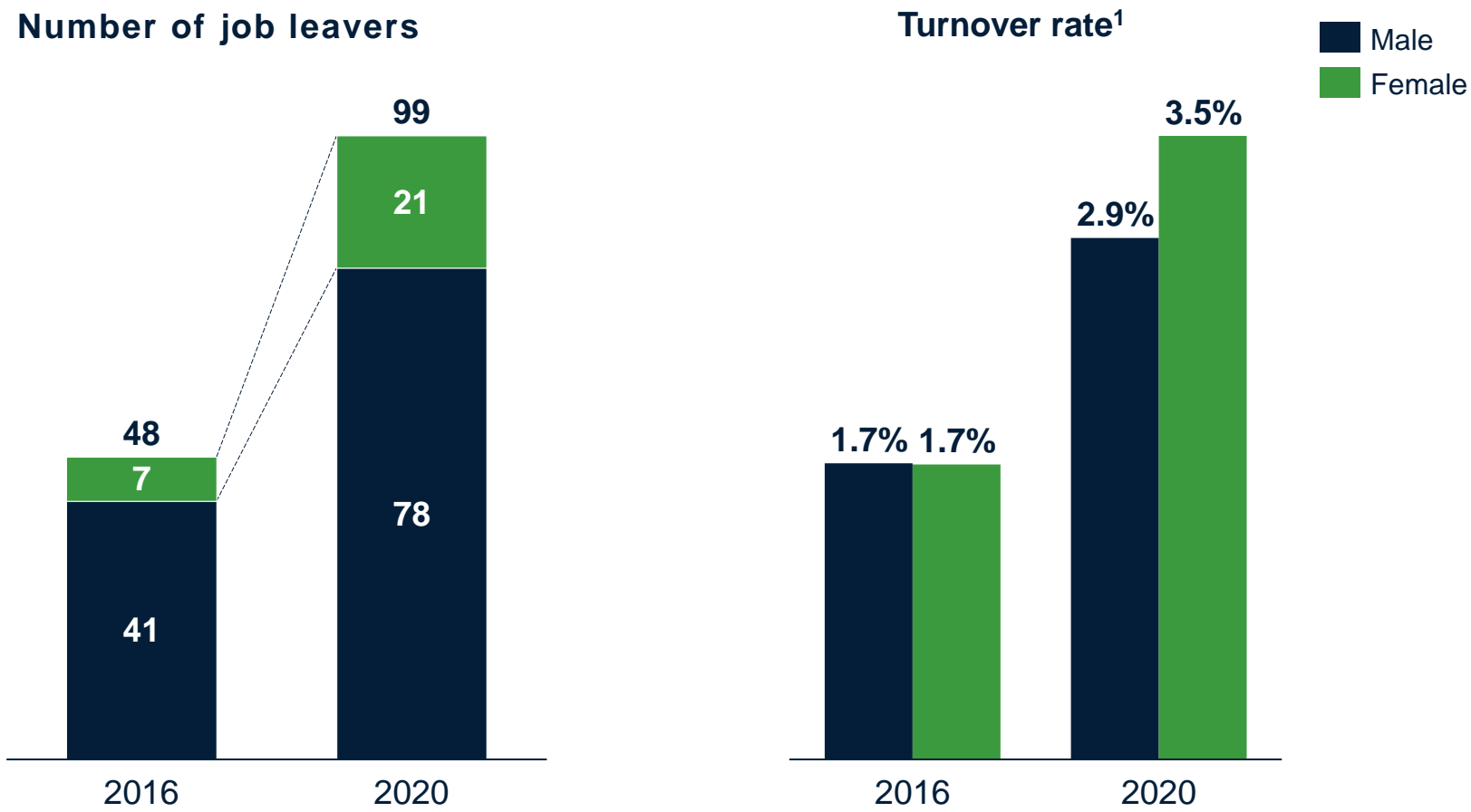
**"There are many power harassers. Several of my colleagues in the same intake have also left the company due to mental illness. I thought that even if I stay at this company in the future, there is a high probability that my boss will be someone who pushes people into a mental corner."**

  
**30s; Female**

The above comments were posted anonymously on Internet bulletin boards. As such, in conducting the investigation, AVI has not verified whether the persons posting these posts are in fact employees or former employees of NS Solutions, nor has it verified the credibility or accuracy, etc. of the content of the posts. Therefore, AVI hereby notes that AVI does not necessarily acknowledge nor makes any guarantee that the results of the Investigation are true or accurate.

# AVI's Investigation (4)

- In the past 5 years, the number of job leavers has doubled, and the turnover rate, especially among women, has more than doubled



Note 1: Percentage of employees who left their jobs in each year, to the number of employees  
Source: NS Solutions human resources data

# AVI's Investigation (5)

- AVI conducted interviews totalling 760 minutes with former employees of NS Solutions 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

## Conducted interviews with relevant parties

- **AVI conducted 16 interviews, etc., with the following parties via online Teams meetings. The time spent on the interviews totalled 760 minutes.**

- **Nine former employees of the subject company**

## Reservation of Rights regarding the Investigation and Presentation materials

- Level of assessment by AVI: In some of the cases that investigated, there were cases that included acts that involved opponents, and as a shareholder of NS Solutions, there were certain limitations as to the subject of the Investigation. Also in view of the limited timeline for the submission of our proposals to the FY2022 Ordinary General Meeting of Shareholders, we did not extend our Investigation to cover the actors of the cases and conducted our interviews only with former employees who were the opponents of the acts or who claimed to have witnessed or heard of the acts. Despite the limitations of the subject and time of the Investigation, AVI reviewed the content of each statement and conducted investigations that it deemed reasonably necessary and reported to one internal director and one outside director of NS Solutions by submitting a proposal document on sustainable corporate value enhancement in March 2022 ("AVI Proposal Material of Mar 2022").
- Confirmation of recognitions of actors and opponents of actors not mandatory: In some of the acts that were the subject of the Investigation, there were acts that involved opponents. These acts were highly sensitive for the actors and the opponents and contained highly private information. As AVI believed that the Investigation must be conducted with consideration for the opponents, we determined that it is not appropriate to strongly request them to cooperate in the Investigation. As such, AVI reserves in advance that in conducting the Investigation, it the task of confirming the opponents' recognition on the actors and opponents of the acts conducted by the officers and employees, etc. of the subject company is not mandatory.





## AVI's Investigation (5), Cont'd

- AVI conducted interviews totalling 760 minutes with former employees of NS Solutions 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

### **Reservation of Rights regarding the Investigation and Presentation materials (Cont'd)**

- Description on individual acts: AVI has conducted investigations on information that was claimed to be the act conducted by the officers and employees of NS Solutions based on multifaceted methods and perspectives and made assessments at a certain level. However, the details of the individual, specific acts that were the subject of the Investigation contained highly sensitive and private information of the actors and the opponents. Therefore, AVI did not include the details of the individual acts in this presentation material that AVI plans to publicise. AVI does not necessarily acknowledge nor makes any guarantee that said information is true or accurate. Because AVI Proposal Material of Mar 2022 was not intended for publication, AVI included a certain level of detailed descriptions on the individual, specific acts that were subject to said assessment. However, as stated above, these detailed information contains highly sensitive and private information of the actors and the opponents. Therefore, in order to maintain and ensure compliance, AVI made available the AVI Proposal Material of Mar 2022 on a need-to-know basis, limiting only to the members of the Board of Directors and IR Office of the subject company, and the Board of Directors and IR Office of Nippon Steel, the parent company of the subject company.

# AVI's Investigation (5), Cont'd

- In our interview, a former employee of NS Solutions claimed that reporting of violations through labour-related surveys or whistleblowing were not always conducted.

## Excerpt from a former NS Solutions employee's email response to our questionnaire

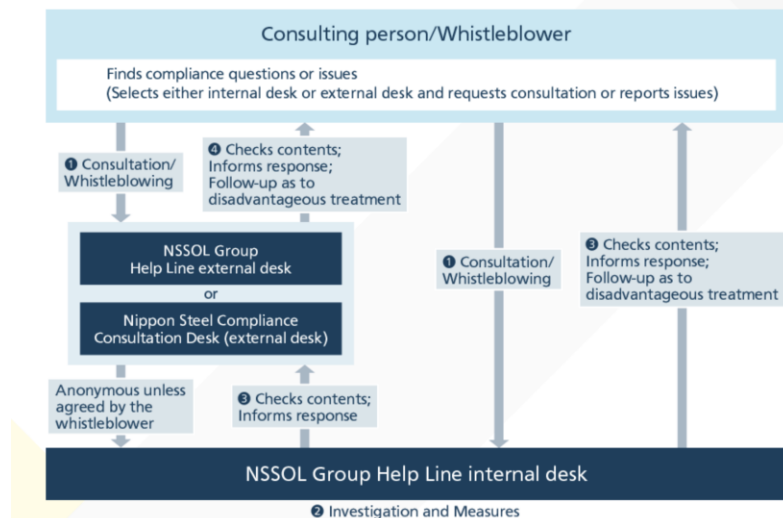
I didn't respond to labour-related questionnaires for the following reasons:

- Was afraid that there would be retaliation at work
- The Help Desk didn't actually guarantee anonymity and wasn't really functioning
  - Rumour had it that offenders found out about the reports
- I was too overloaded to make good judgments in the first place
  - Now that I think about it, it was apparently power harassment, but at that time I think my mind was always on "have to do this," "have to go there"

There is an episode, which may already be publicised, but, NSSOL has a strange working environment. The hours and overtime for working on weekends and holidays are not counted as working hours subject to the so-called "36 Agreement" on compensatory holidays. I don't know how it is now, but at that time, no matter how many hours we work on weekends, it didn't count. In a recent alumni party, we only talked about it briefly, but I heard that the rule still exists.

## NS Solutions' Help Line system:

Image of Help Line system



In including the following information in this presentation, AVI has obtained written consent to publicly disclose the response of the former employee. It should be noted that AVI acknowledges that the content of the interviews may not necessarily be true or accurate. It does not represent any opinion of AVI, and is intended only to indicate that a claim such as the one shown below existed in the process of our interview.

# Post-investigation Events

- To share our concerns regarding human resource management and to encourage NS Solutions to address these issues, we held a meeting with the executive officers of NS Solutions in November 2021 and requested that NS Solutions implement specific initiatives and set targets related to diversity, inclusion and the wellbeing of employees and provide detailed disclosure of progress and achievements. However, NS Solutions has failed to take specific action in response to these requests.
- Following this, in March 2022, we held a meeting with two Directors of NS Solutions (one being an Outside Director) to inform them of the results of our Investigation and express our deep concerns regarding NS Solutions' workplace environment (particularly in response to incidents of sexual harassment and power harassment), and stated that these issues could not be overlooked in light of AVI's ESG policy. However, NS Solutions claimed that sexual harassment and power harassment cases are appropriately dealt with on a case-by-case basis and did not propose any new specific action plans in response to the results of our investigation.
- To follow up on this matter, we subsequently requested a meeting with the two other Outside Directors and Mr. Morita, Representative Director and President, but at the date of publishing, the request has not been accepted.

# AVI's Suggestions to Achieve Sustainable Corporate Value

- Having considered the results of the Investigation and NS Solutions' response to this matter, we believe that NS Solutions has been too slow to address the wellbeing of its employees and HR issues. Given that human resources lie at the core of NS Solutions' success, the fact that the number of employees leaving has almost doubled between 2015 and 2020, poses a major risk. To achieve effective and sustainable human resources management, it is imperative for NS Solutions to create a working environment that prioritises the wellbeing of its employees. In particular, sexual harassment and power harassment must be thoroughly investigated and appropriate disciplinary action should be taken against harassers based on the results of these investigations, if necessary. It is also crucial to develop an environment in which victims of such incidents are never neglected, undermined, nor blamed. NS Solutions must seriously accept the findings of the Investigation and take effective action immediately.
- Therefore, AVI makes the following suggestion to NS Solutions. In order to achieve sustainable enhancement of NS Solutions' corporate value and to create a working environment in which employees can work peacefully, we sincerely hope that the shareholders of NS Solutions will support the measures proposed by AVI.

***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 lawyers who are independent from both the Company and the Directors of the Company. The Special Investigation Committee must disclose the results of its investigation by way of a report, including remedial measures by 1st September 2022***

# Ministry of Justice's Human Rights Declaration

## My Jinken Declaration

Through the “My Jinken Declaration,”  
let us realize together a society in  
which everyone respects each other's  
human rights.

We respect the human dignity of all people and do not permit any discrimination or harassment on the basis of race, color of skin, gender, nationality, language, religion, idea, belief, origin, disability, sexual orientation, or gender identify.

We pursue the creation of an organization in which people understand and respect the values, thoughts, and concerns of the peers they work with, by building a culture that encourages respect for others and mutual acceptance, and where everyone can work together with enthusiasm.

NS Solutions  
Representative Director & President  
Hiroyuki Morita  
Senior Executive Officer in charge of  
Work Practice Report Keiko Yoshida

NS Solutions endorses the Ministry of Justice's ‘My Jinken Declaration’ and declares that it “does not tolerate any discrimination or harassment”



# “People are our greatest asset and corporate value itself”

- NS Solutions believes that “people are the greatest asset” and that a workplace where talented and diverse employees can work in a healthy and vibrant manner is a “prerequisite” for the growth of a company

***A workplace that attracts a talented and diverse workforce and allows them to work in a healthy and vibrant environment is a prerequisite for corporate growth.***

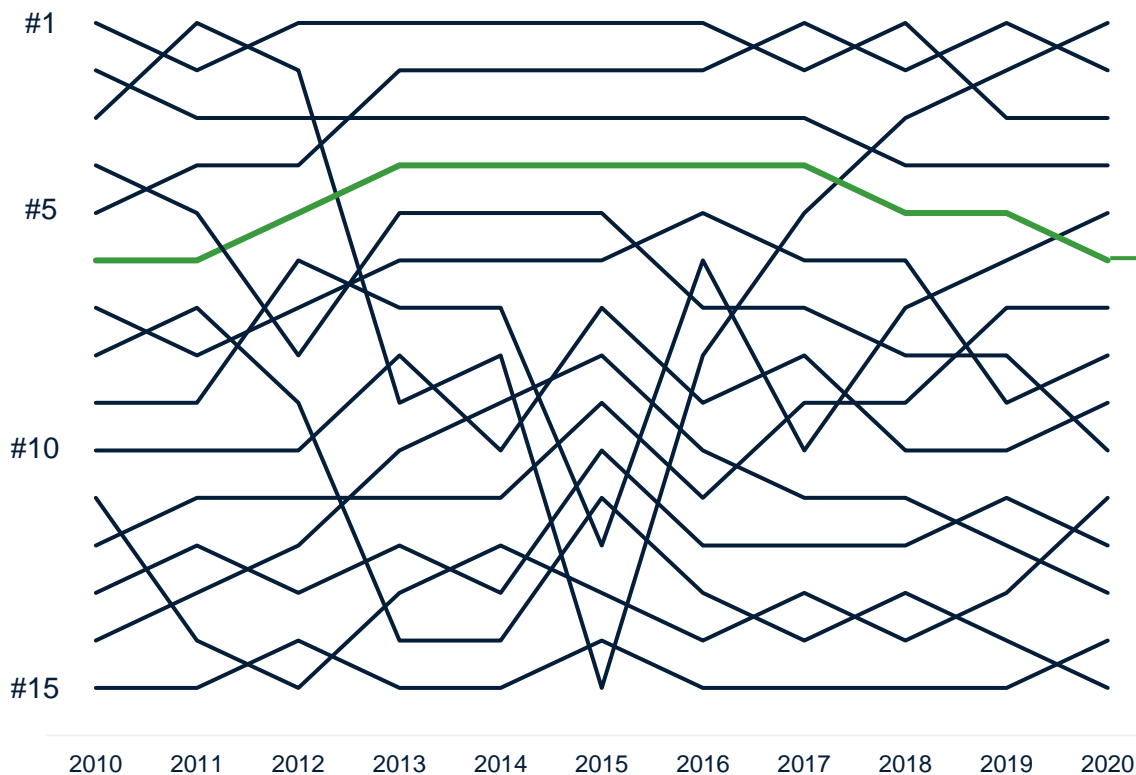
***We believe that "people are the greatest asset and corporate value itself," and we consider the most important issue for business growth is how to secure excellent human resources and ensure that they work actively and healthily for a long time.***



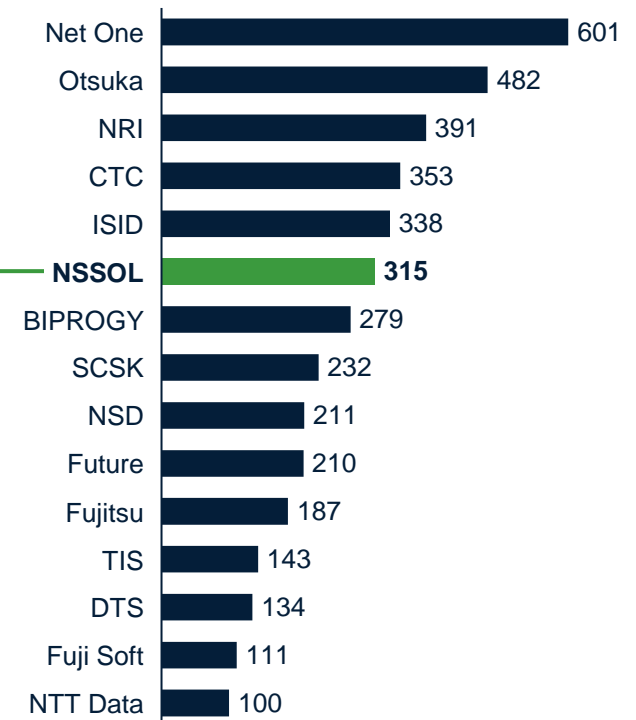
# High Productivity of NS Solutions Employees

- NS Solutions' employee productivity (EBIT per employee) is one of the highest in the industry

Productivity rankings (EBIT per employee; FY2010-2020)



Productivity in FY2020 (JPY mm)





# World-class Technical Skills of Employees

- This high productivity is underpinned by the world-class technical skills of NS Solutions' employees



データ分析世界大会“Kaggle”に参加の2チームが金賞、銀賞を獲得  
～ブラックホール衝突の痕跡を探す「G2Net Gravitational Wave Detection」～

ニュース

データ分析世界大会“Kaggle”にて第2位、第5位に入賞

～天体観測データから知的生命体の痕跡を探す「SETI Breakthrough Listen - E.T. Signal Search」～

ニュース

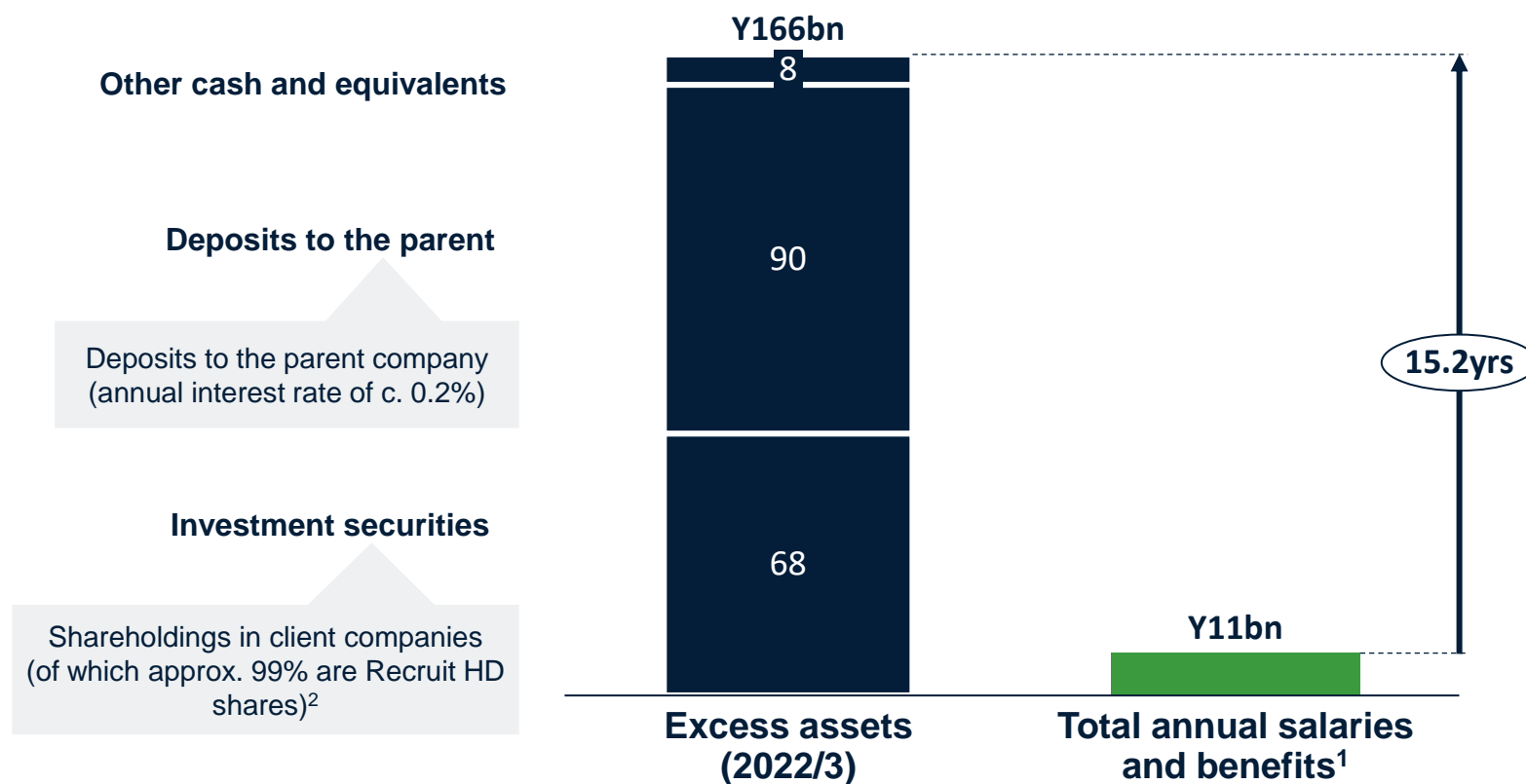
2021年8月25日  
日鉄ソリューションズ株式会社



# Distorted Allocation of Capital Resources

- Capital resources equivalent to c.15.2 years of annual salaries and benefits for all employees are allocated to deposits with the parent company at interest rates far below the cost of capital, and to shareholdings in client companies

## Liquid assets vs. total annual salaries and benefits



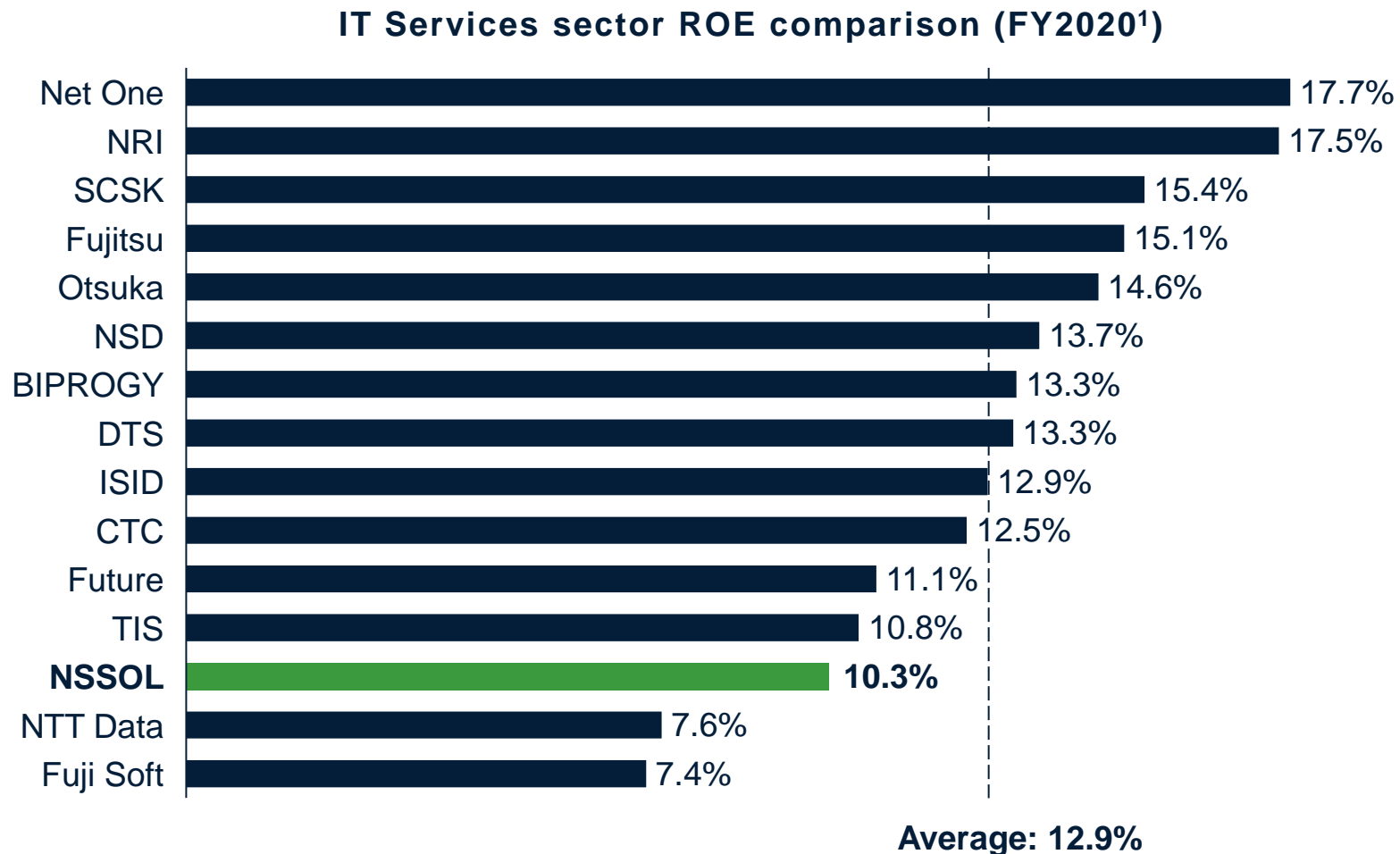
Note 1: Total salaries and benefits of FY2022/3

Note 2: Percentage of Recruit HD's balance sheet amount as a percentage of strategic shareholdings (book value on the balance sheet) of non-listed companies in the Annual Securities Report for the fiscal year ended March 31, 2021. At the time of publication of this document, the Annual Securities Report for the fiscal year ended March 31, 2022 was undisclosed.

Source: Prepared by AVI based on NSSOL disclosure materials

# Capital efficiency comparison in the IT Services Sector (1/2)

- In terms of capital efficiency, NS Solutions' ROE is among the lowest in the industry

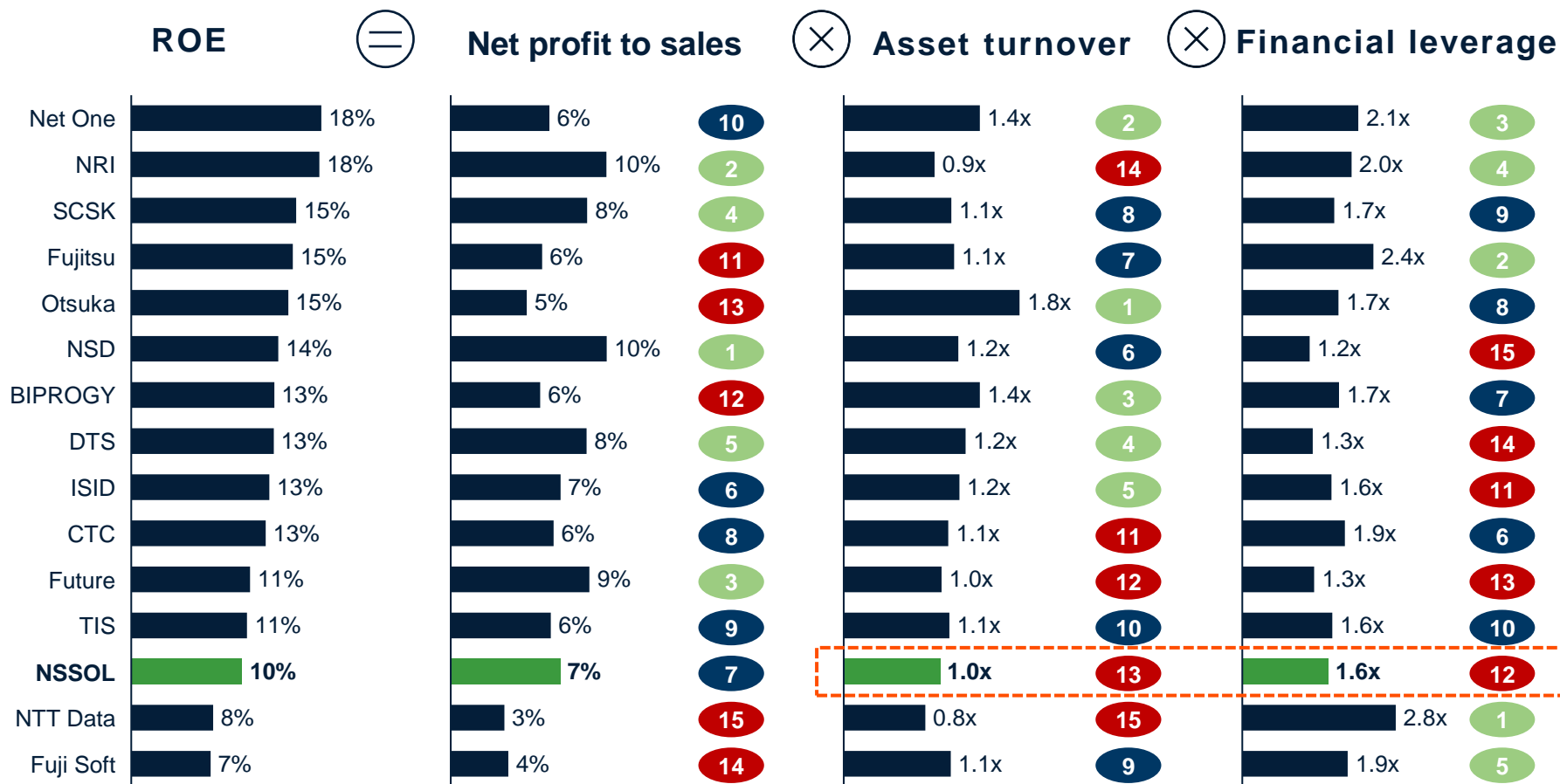


# Capital efficiency comparison in the IT Services Sector (2/2)

- Liquid asset inefficiencies significantly depress ROE

x 1<sup>st</sup> - 5<sup>th</sup>
x 6<sup>th</sup> - 10<sup>th</sup>
x 11<sup>th</sup> - 15<sup>th</sup>

## IT Services Sector ROE comparison (FY2020)



# NS Solutions

## Cross-Shareholdings

Specified equity securities held by NS Solutions are:

- 1) Recruit Holdings
- 2) Daito Trust Construction
- 3) Oracle Corporation Japan
- 4) Yakult Honsha

Of these, three companies (Recruit HD, Daito Trust Construction and Yakult Honsha) are disclosed as “important customers” and the reason for holding these securities are to maintain and strengthen the business transaction relationships with them.

However, from the perspective of shareholders and investors, it is remarkably difficult to understand either of the following two rationales, at least from the current disclosures:

- (i) The causal relationship between being an important customer and holding these clients’ securities
- (ii) Lack of consistency of not cross-shareholding the securities of “important customers” other than the above three companies.

NS Solutions’ latest cross-shareholdings amount to approximately 67.8 billion yen

### Consolidated Financial Statements

#### Consolidated Balance Sheets

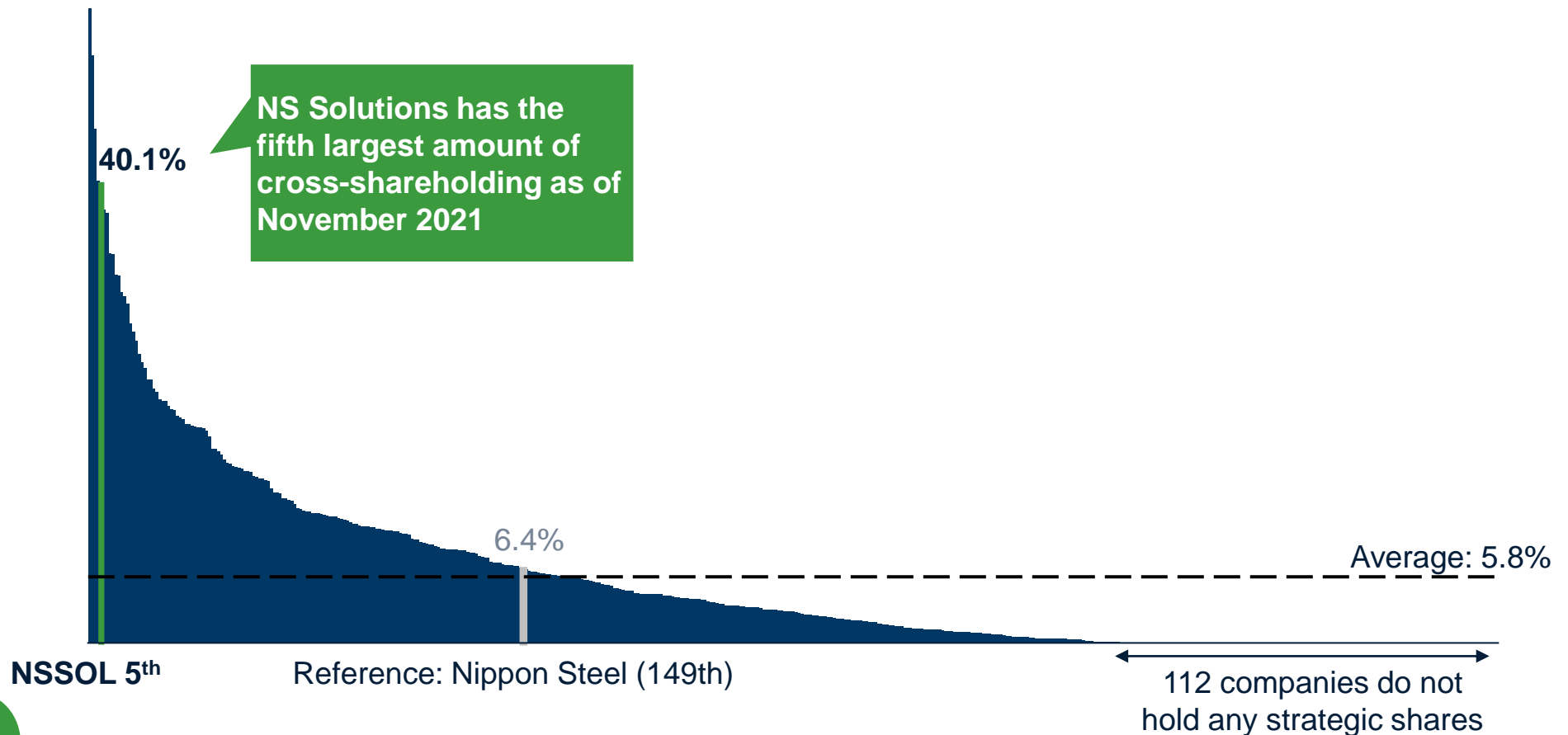
	(Millions of yen)	
	March 31, 2021	March 31, 2022
<b>Assets</b>		
Current assets		
Cash and deposits	5,255	5,865
Deposits paid	73,530	90,216
Notes and accounts receivable - trade	61,074	—
Notes receivable - trade	—	266
Accounts receivable - trade	—	55,100
Contract assets	—	11,592
Securities	1,000	2,000
Work in process	28,344	19,488
Raw materials and supplies	42	159
Other	2,612	3,115
Allowance for doubtful accounts	(25)	(120)
Total current assets	171,834	187,686
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	8,179	10,331
Tools, furniture and fixtures, net	6,913	7,308
Land	2,543	2,543
Leased assets, net	1,491	2,711
Construction in progress	443	851
Other	1	0
Total property, plant and equipment	19,572	23,747
Intangible assets		
Software	1,507	2,757
Goodwill	2,923	2,458
Other	609	1,685
Total intangible assets	5,040	6,900
Investments and other assets		
Investment securities	65,036	67,824
Deferred tax assets	4,127	4,091
Guarantee deposits	6,336	6,223
Other	324	366
Allowance for doubtful accounts	(48)	(48)
Total investments and other assets	75,776	78,455
Total non-current assets	100,388	109,103
Total assets	272,223	296,790

**Source:** NS Solutions’ annual securities report and quarterly consolidated financial statements

# Ranking of Cross-Shareholding Ratio to Equity of Listed Companies

- NS Solutions is the fifth largest holder of cross-shareholding

**Cross-shareholding ranking as % of net assets<sup>1</sup> (Listed companies with MC >Y200bn; latest FY)**



Note 1: Survey of 481 companies listed on the Tokyo Stock Exchange with a market capitalization of 200 billion yen or more (excluding financial services sector), calculated based on the market value of specified equity securities based on the share price as of November 22, 2021

Source: AVI, based on Quick Astra Manager (data taken as at Nov 22, 2021)

# Strategic Shareholding Criteria by Voting Advisory Firms

- In general, cross-shareholding raises concerns that the long-term interests of shareholders will be undermined

## ISS 2022 Japan Proxy Voting Guidelines

Problems arising from cross-shareholdings, such as inefficient allocation of capital and hollowing out of capital, are said to be the most significant corporate governance problems in Japan. The capital invested in cross-shareholdings cannot be used for capital investment in the core business, business acquisitions, dividends, or share buybacks, and there are concerns that cross-shareholdings are contrary to the long-term interests of shareholders. Furthermore, since voting rights are always exercised in favour of company-proposed proposals while opposing shareholder proposals, there is concern that market discipline will decline. In addition, policy shareholdings may lead to a decline in capital productivity. It is also pointed out that low capital productivity has affected the low profitability of Japanese equity investments over the decades.

## Glass Lewis 2022 Policy Guidelines - Japan

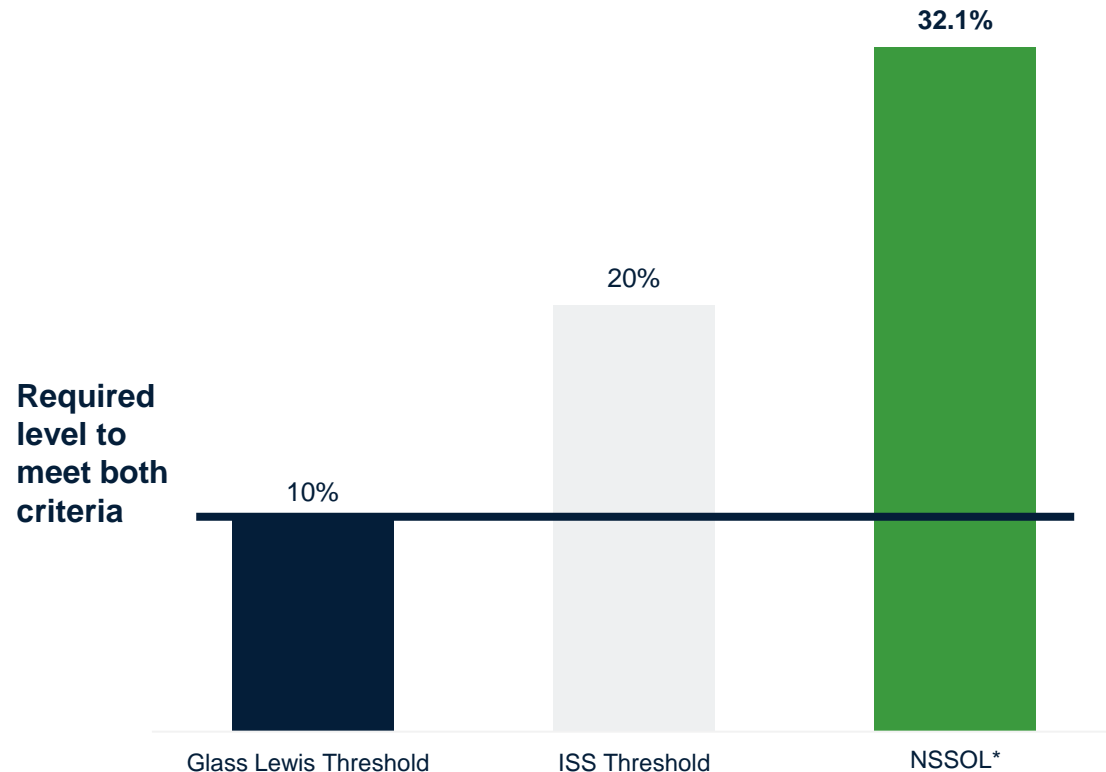
Strategic cross-shareholdings among companies, a market practice unique to Japan, exclude the economic value of listed company shares from the voting perspective and often serve to protect management from the pressures of the capital markets. Cross-shareholdings and strategic holdings are also likely to lead to reduced management accountability, inadequate crisis management capabilities, inefficient capital management policies, etc., and are believed to contribute to the avoidance of hostile takeovers. Many companies claim that cross-shareholdings and policy holdings are an essential part of their management strategy, but clear rationales are rarely disclosed, and investors are often negative about these policy holdings.



# Revised Advice Policies by ISS and Glass Lewis

- NS Solutions' current cross-shareholding ratio is unlikely to meet the criteria of either proxy advisors
- If proxy advisors advise against nomination of top management, institutional investors who value ISS/GL's recommendations might be forced to vote against NS Solutions management

## Comparison of proxy advisors' criteria with current NS Solutions' level of cross-shareholding



**Note** \*: Based on NS Solution's Annual Securities Report as at the end of March 2021  
**Source**: AVI based on Glass Lewis, ISS, and NS Solutions' Annual Securities Report

# Recruit HD's Policy of Strategic Shareholdings

- It is clear from Recruit HD's IR disclosures that Recruit HD makes decisions on business transactions based on business benefits such as technologies, proposals, innovations of NS Solutions and economic rationality. There is no rationale in cross-holding of shares.

## Recruit Holdings Co., Ltd. Policy of Strategic Shareholdings, June 2021

### Policy of Strategic Shareholdings

**In principle, the Company's policy is to reduce strategic shareholdings.** The decision on whether or not to hold each company's stock is made based on a comprehensive assessment of the economic value of its stock, cost of capital, strategic importance, and other factors. The Board of Directors scrutinizes these shareholdings once a year and deliberates the reduction of these holdings if they do not meet the above criteria.

Exercising voting rights of strategic shareholdings is to be carried out appropriately upon verifying the agenda item and judging whether or not such proposed item contributes to improvement of shareholder value. If the agenda item significantly damages expected shareholder value, the Company will not judge it positively. If the Company casts a dissenting vote to an agenda item, it will be reported to the Board of Directors.

**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.**

**Furthermore, 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.**



# NS Solutions Corporate Philosophy

- Clients must be seeking NS Solutions' ability to create value based on innovative technology, track record to meet the needs, and willingness to grow and challenge. It is unlikely they are trading because of cross-shareholdings

## NS Solutions Corporate Philosophy

### Creation, Reliability, Growth

**As a professional IT firm**, NS Solutions focuses on **creating real value** to establish mutual trust with its customers, achieve mutual business growth, and contribute to progress in society.

#### Creation

We create new value.

**As information technology professionals, we create real value through the provision of innovative technology solutions.**

#### Reliability

We ensure that our customers' trust is steadfast.

As a member of the Nippon Steel Group, we will **continue to build on and consolidate the trust of our customers and society by responding accurately to their needs.**

#### Growth

**We are always looking for ways to grow and challenge ourselves.**

As a leading systems integrator, we are committed to leading the industry and growing with our customers by contributing to their growth.



# The Parent Company's Policy on Cross-Shareholdings

- The parent company states that it will further compress assets through the sale of strategic shareholdings, and that it will continue to dispose of holdings whenever it can build business relationships without them

## Nippon Steel Corporation Integrated Report 2021

### Asset compression by disposing of strategic shareholdings

Following the integration of Nippon Steel and Sumitomo Metals in 2012, we generated Y780 billion on a cumulative basis in asset compression over six years to 2017. In the 2018-2020 Mid-Term Management Plan, we planned to achieve Y110 billion in asset compression but given deteriorating performance and the status of operating cash flow, we have accomplished approximately Y520 billion asset compression in the last three years, by far exceeding the plan. **We intend to further compress assets in the future.**

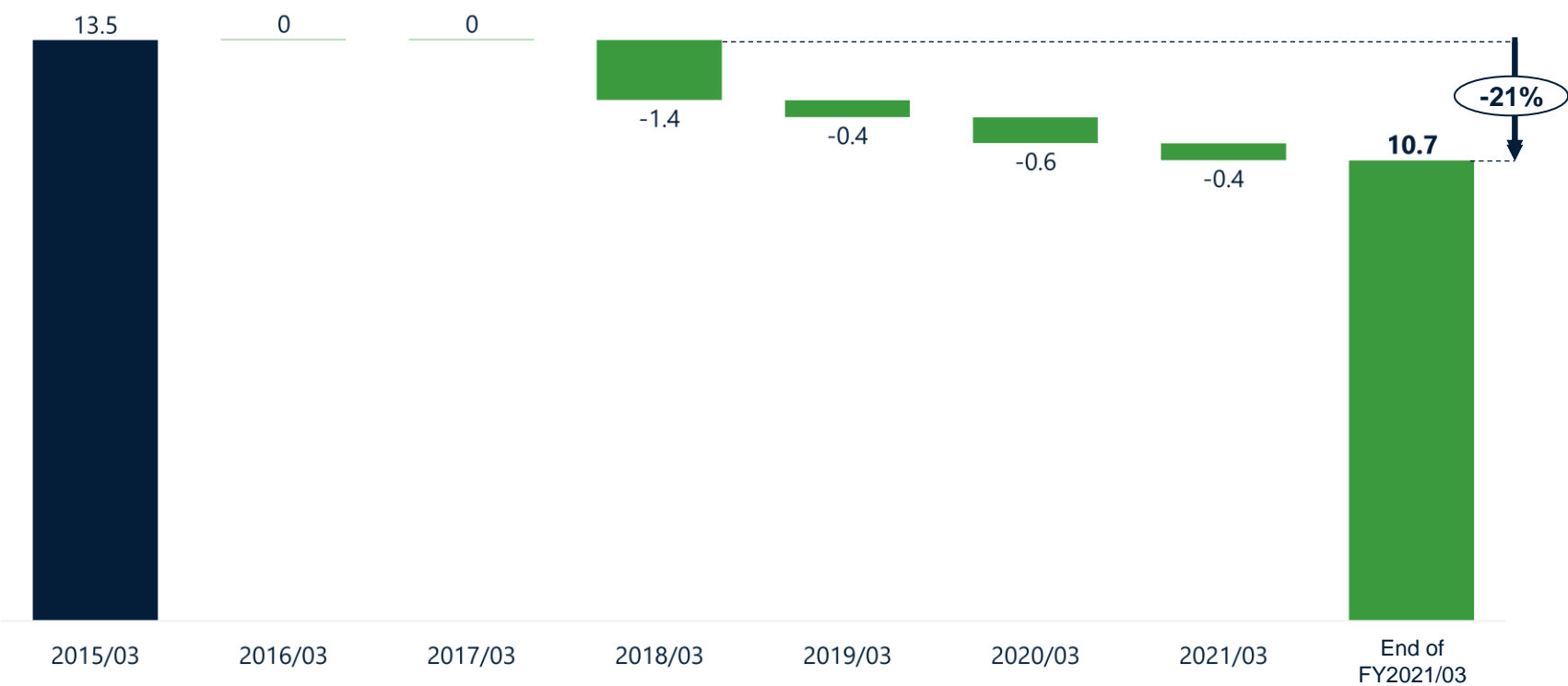
### **Most of the asset compression comes from sale of strategic shareholdings.**

Strategic shareholdings are judged to contribute to maintaining and strengthening its business foundation such as the business relationship and alliance relationships between Nippon Steel and investees, enhancing the profitability of both parties, and thereby contributing to sustainable growth and improving mid- to long-term corporate value of Nippon Steel and the Group. However, **we dispose of holdings of companies, with whom we confirmed**, based on sufficient dialogue with them, that **the above objectives could be achieved without holding their shares.**

# Strategic Holding of Recruit HD Shares

- Recruit HD shares decreased only by ~20% in the past 7 years. Selling them promptly (within the coming year) could bring funds for HR, DX, and other investments for sustainable growth

Number of strategic holding of Recruit HD shares<sup>1</sup> (million shares)



Note 1: Adjusted for stock split  
Source: NS Solutions Annual Securities Report

# Opinion of Outside Director



- In March 2022, AVI met with an Outside Director of NS Solutions to exchange views on strategic shareholdings, and was able to hear his personal opinion as outside director

“I think the relationship with Recruit, the largest cross-shareholder is particularly important strategically. In our business with Recruit, we share various expertise and it is crucial for NS Solutions from a medium- to long-term perspective how we can package them. **There is room for discussion as to whether it makes sense to hold a certain number of shares in order to maintain a strategically important partnership.** Currently we do have that strategic necessity, so certainly the number [of shares] may be too big by external standards like Glass Lewis or ISS, but they do have a special meaning so we believe that it is rational.”

“Having said that, though, **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 needs and should allocate them for growth investments and for the development of the Company. Personally, I don't think these shareholdings have such major impacts on the current business transactions.** So, for example, if we decide to reduce the shareholding, of course Recruit's policy would not allow them to say, “then we're not dealing with you any more,” and Recruit wouldn't really terminate. What I am saying is that, from NS Solutions' standpoint, I personally think that NS Solutions wants to leverage on Recruit for expansion when deploying a new business in the future, and that is what's extremely important for the long-term development of NS Solutions. So, collaboration in that sense, not necessarily the success of the current business itself, but the success of the process of exchanging various know-hows and creating something together, is perhaps the true significance of holding a certain number of shares. **It is quite difficult to quantify** [the benefits of holding], but Recruit management would come and give a detailed explanation to the major shareholders, and top management of both companies are getting along well, which is important in creating those businesses, so I think there is a certain level of rationale [in the cross-shareholding]. **Holdings shares beyond strategic necessity is certainly a waste of capital, so I personally think it is better to gradually explore and reduce those shares, and use them for growth investment.**”



The above information is strictly a personal opinion of an outside director which was disclosed during an exchange of views with AVI. AVI understands that the opinion does not represent the opinion of the entire company nor the consensus of the entire Board of Directors. To avoid cutting out the arbitrary statements, the entire comment has been posted.



# NS Solutions' Disclosure on Strategic Shareholdings

- NS Solutions does not disclose the quantitative effects of cross-shareholding, and there are doubts as to whether the effects of holding 67.8 bn yen worth of shares (as of Mar 2022) are appropriately verified

Specified equity securities

Issue	Current fiscal year	Previous fiscal year	Purpose of holding, quantitative effect of holding, reason for increase in number of shares	Holding of the Company's shares
	Number of shares (shares)	Number of shares (shares)		
	Amount recorded in balance sheets (millions of yen)	Amount recorded in balance sheets (millions of yen)		
Recruit Holdings Co., Ltd.	10,710,000	11,140,000	<p>This company is an important customer of the Company, and the Company holds shares in this company for the purpose of maintaining and strengthening commercial business relationships.</p> <p>It is difficult to state the quantitative effects of shareholding because they contain sales and other trade secrets of the Company.</p> <p>As for the reasonableness of shareholding, the Company uses the annual sales and other indicators applicable to said corporate group and comprehensively verifies the business results such as business expansions achieved through enhancement of relations with the investee company, positioning within the Company's medium- to long-term business strategy, and economic rationales of transactions by comparing the benefits of shareholding (dividends received and profit from business transactions) with the cost of capital, among other issues.</p>	No
	57,844	31,147		

**In the opinion of an Outside Director of NS Solutions, impacts on the current business transactions are limited. The view that cross-shareholding contributes to sales expansion is in direct opposition to Recruit HD's disclosure and not rational.**

# NS Solutions' Disclosure on Strategic Shareholdings, Cont'd

- The purposes of all issues are simple “copy and paste” descriptions with no explanation on quantitative effects of shareholding

c. Numbers of securities and amounts recorded in the balance sheet for equity holdings for specific purpose and deemed equity holdings

Specified equity securities

Issue	Current fiscal year	Previous fiscal year	Purpose of holding, quantitative effect of holding, reason for increase in number of shares	Holding of the Company's shares
	Number of shares (shares) Amount recorded in balance sheets (millions of yen)	Number of shares (shares) Amount recorded in balance sheets (millions of yen)		
Recruit Holdings Co., Ltd.	10,710,000	11,140,000	This company is an important customer of the Company, and the Company holds shares in this company for the purpose of maintaining and strengthening commercial business relationships. It is difficult to state the quantitative effects of shareholding because they contain sales and other trade secrets of the Company. As for the reasonableness of shareholding, the Company uses the annual sales and other indicators applicable to said corporate group and comprehensively verifies the business results such as business expansions achieved through enhancement of relations with the investee company, positioning within the Company's medium- to long-term business strategy, and economic rationales of transactions by comparing the benefits of shareholding (dividends received and profit from business transactions) with the cost of capital, among other issues.	No
	57,844	31,147		
Daito Trust Construction Co., Ltd.	30,000	30,000	This company is an important customer of the Company, and the Company holds shares in this company for the purpose of maintaining and strengthening commercial business relationships. It is difficult to state the quantitative effects of shareholding because they contain sales and other trade secrets of the Company. As for the reasonableness of shareholding, the Company uses the annual sales and other indicators applicable to said corporate group and comprehensively verifies the business results such as business expansions achieved through enhancement of relations with the investee company, positioning within the Company's medium- to long-term business strategy, and economic rationales of transactions by comparing the benefits of shareholding (dividends received and profit from business transactions) with the cost of capital, among other issues.	No
	384	301		

Oracle Corporation Japan	30,000	30,000	This company is an essential supplier for the IT infrastructure sectors of the Company, and the Company holds shares in this company for the purpose of maintaining and strengthening business relationships. It is difficult to state the quantitative effects of shareholding because they contain sales and other trade secrets of the Company. As for the reasonableness of shareholding, the Company uses the annual purchase orders and other indicators applicable to said company and comprehensively verifies the business results such as business expansions achieved through enhancement of relations with the investee company, positioning within the Company's medium- to long-term business strategy, and economic rationales of transactions by comparing the benefits of shareholding (dividends received and profit from business transactions) with the cost of capital, among other issues.	No
	324	233		
Yakult Honsha Co., Ltd.	4,529	4,496	This company is an important customer of the Company, and the Company holds shares in this company for the purpose of maintaining and strengthening commercial business relationships. It is difficult to state the quantitative effects of shareholding because they contain sales and other trade secrets of the Company. As for the reasonableness of shareholding, the Company uses the annual sales and other indicators applicable to said corporate group and comprehensively verifies the business results such as business expansions achieved through enhancement of relations with the investee company, positioning within the Company's medium- to long-term business strategy, and economic rationales of transactions by comparing the benefits of shareholding (dividends received and profit from business transactions) with the cost of capital, among other issues.	No
	25	28		

Except for a few words, the purpose and quantitative effect of shareholdings of specific equity securities are simple “copy and paste” descriptions, merely stating that it is difficult to quantify the benefits of holding and do not explain the situation and purpose of each holding.

# FSA's Good Practices of Disclosure of Cross-Shareholdings

- According to FSA's good practices of disclosure, the rationality of cross-shareholding should be verified by specifically describing the degree of contribution to business earnings

How to verify the rationality of cross-shareholdings

The rationality of cross shareholding should be verified from the perspective of the degree of contribution to business earnings, rather than evaluating returns based on market value (unrealized profit) and dividends as in the case of net investments.

(Examples)

- Scale of business transaction increased by X% compared to the average of the past Y years;
- ROE, RORA, etc. increased by X%

(\*) It should be noted that verification based only on market value (unrealized profit) and dividends is the same as evaluating net investments. Evaluation of cross-shareholdings requires other verifications.

**Specific descriptions on the degree of contribution to business earnings is the point to FSA's good practice of disclosure**  
**(Ex. Scale of business transaction increased by X% compared to the average of the past Y years; ROE, RORA, etc. increased by X%)**

# FSA's Good Practices of Disclosure of Cross-Shareholdings, Cont'd

- According to FSA's good practices of disclosure, a good disclosure describes the holding policy, such as “In light of avoiding risks resulting from stock price fluctuations and improving asset efficiency, the Company owns no listed shares.”

## **KOMATSU LTD. Annual Securities Report (The 151st Fiscal Year) P. 113** **4. Corporate Governance, etc. \*Partial excerpt**

### **(5) Shareholdings**

#### **A. Classification of investment securities**

The Company classifies investment securities by holding purpose, for pure investment or other than pure investment. Pure investment means that the Company owns shares only for purpose of returns from stock price fluctuations and/or dividends.

#### **B. Investment securities held for purpose other than pure investment**

##### **1. Policy of holding listed stocks**

In light of avoiding risks resulting from stock price fluctuations and improving asset efficiency, the Company owns no listed shares except for the cases in which business relationships with invested companies and/or business cooperation with the Company are needed.

Description on policy of strategic shareholdings

**Example of KOMATSU LTD. (Description on policy of strategic shareholdings)**



# FSA's Good Practices of Disclosure of Cross-Shareholdings, Cont'd

- According to FSA's good practices of disclosure, a good disclosure describes the purpose of holdings in relation to the business conditions of each individual brand

## MARUI GROUP CO., LTD. Annual Securities Report (The 84th term) P. 60-62

### 4. Corporate Governance \*Partial excerpt

#### (5) Status of shares held

##### 1) Standards and approach for the classification of shares for investment

The Company classifies shares for investment into those for pure investment and those for other purposes.

- "Shares for investment for pure investment" refers to shares held for the purpose of generating income through changes in share prices or dividends related to the shares.
- "Shares for investment for other purposes" refers to shares held for the purpose of maintaining or building upon collaborative or transactional relationships that are strategically critical for improving the Group's corporate value.

##### 2) Shares for investment for other purposes

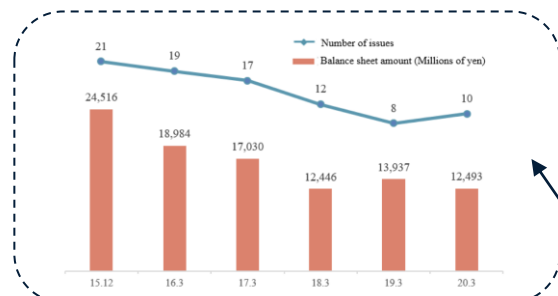
a. Holding policies, method of verifying the rationality of holdings, and verification of the appropriateness of holding specific issues at meetings of the Board of Directors, etc.

In principle, the Company will not engage in cross-shareholdings except for cases in which such holdings are deemed necessary for maintaining or building upon collaborative or transactional relationships that are strategically critical for improving corporate value. The Company regularly verifies the rationality of shareholdings and discloses an overview of the content thereof after annual verification at meetings of the Board of Directors. Shares with diminished rationality for holding will be sold in phases upon considering the status of the counterparty.

Furthermore, at a meeting of the Board of Directors held in February 2016, it was determined that the Company had already established sufficiently strong business relationships with cross-shareholding counterparties, and it was therefore decided to undertake a phased reduction in cross-shareholdings out of consideration for asset efficiency and stock price fluctuation risks. Since then, the returns from each cross-shareholding have been verified at meetings of the Board of Directors held in either July or August of each year. The extent to which holdings have been reduced was confirmed at these meetings.

##### □ Changes in the number of issues of listed shares held for purposes other than pure investment and the amount recorded on the balance sheet

- Since December 2015, we have gradually reduced the number of issues and the amount held, but they have increased due to new listing of two issues of unlisted shares in March 2020.



#### c. Information on the number of shares, balance sheet amounts, etc. of each issue of specified shares for investment and deemed shareholdings

##### Specified shares for investment

Issue	Fiscal year under review	Previous fiscal year	Purpose and quantitative effect of holding*1, and reason for increase in number of shares	Shares of the Company held*2
	Number of shares Balance sheet amount (Millions of yen)	Number of shares Balance sheet amount (Millions of yen)		
TOHO CO., LTD.	8,510	11,462	To facilitate smooth collaboration, as we have business relationship other than leasing of store buildings, such as the opening of GODZILLA STORE Tokyo at MARUI and issuance of GODZILLA EPOS cards	Yes
BASE, Inc. *4	1,261,200	—	To facilitate smooth collaboration, as we have business relationship including the opening at MARUI of SHIBUYA BASE, which is a permanent physical shop for owners that opened online shops using BASE.	No
Mitsubishi UFJ Financial Group, Inc.	2,440,000	2,440,000	To facilitate smooth transactions with the major financial institution.	No *
	983	1,342		
Nojima Corporation	460,000	460,000	To facilitate smooth collaboration, as we have business relationship including the opening of nojima stores at MARUI and issuance of nojima EPOS affiliated cards.	Yes
	820	924		
giftee, Inc. *5	500,000	—	To facilitate smooth collaboration as we have business relationship in relation to gift services offered in the official EPOS card app.	No
	643	—		
The Chiba Bank, Ltd.	127,338	127,338	To facilitate smooth transactions with the financial institution.	Yes
	60	76		
WACOAL HOLDINGS CORP.	25,000	25,000	To facilitate smooth transactions including the opening of stores at MARUI as tenants and purchasing.	No *
	58	68		
Sumitomo Mitsui Financial Group, Inc.	15,025	15,025	To facilitate smooth transactions with the financial institution.	No *
	39	58		
AEON CO., LTD.	2,000	2,000	To gather information on industry trends, etc.	No
	4	4		
Isetan Mitsukoshi Holdings Ltd.	340	340	To gather information on industry trends, etc.	No
	0	0		

Describes the purpose of holdings in relation to the business conditions of each individual brand

Shows the number of issues and amounts of strategic shares using a graph

Example of MARUI GROUP CO., LTD.  
(Describes the purpose of holdings in relation to the business conditions of each individual brand)

# FSA's Good Practices of Disclosure of Cross-Shareholdings, Cont'd

- According to FSA's good practices of disclosure, a good disclosure provides information on negotiation on the number of shareholdings and timelines for reduction

## Status of corporate governance, etc. \*Partial excerpt

### (5) Ownership of shares

#### (i) Classification criteria and approaches for investment shares

The Company and the Group have defined the classification of investment shares held for the purpose of pure investment and investment shares held for purposes other than pure investment (cross-shareholdings) as follows.

(Investment shares held for the purpose of pure investment)

Shares held exclusively for the purpose of profiting through fluctuations in share prices or from the receipt of dividends

(Investment shares held for any purpose other than pure investment)

Shares held because the Group judged that they are necessary for the promotion of the Group's business strategy, and that the holding of such shares will contribute to the increase of corporate value in the medium to long term

#### (ii) Ownership of shares in the Group

##### 1) Investment shares held for any purpose other than pure investment

- A. Holding policy and the method to verify the reasonableness of the holding, as well as details of such verification by the Board of Directors concerning the appropriateness of the holding of the respective stocks

The Group has prescribed the holding policy and method for validation of rationale of cross-shareholdings, etc. in the Corporate Governance Policy as follows, and the Board of Directors decides whether or not the holding is appropriate.

(Holding policy)

- Shares will not be newly acquired in principle. However, this does not apply to shares where it has been recognized that they are necessary for the promotion of the Group's business strategy, and that the holding of such shares will contribute to the increase of corporate value in the medium to long term through the validation of rationale for holding them.
- If shares that are already held are judged to "not be rational" based on the results of the validation of the rationale of holding, which occurs every year, the Group will negotiate with corporate customers and business partners, and reduce them as appropriate upon receiving consent regarding sale method, period, etc.

(Method for validation of rationale)

The Group periodically validates the rationale of holding individual issues from the following perspective.

##### • Qualitative validation

The perspective relating to business strategies such as maintaining harmonious and favorable business relationships with corporate customers and business partners, and securing supply chains

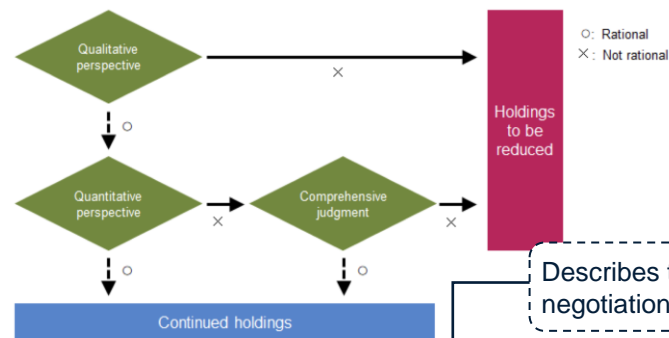
##### • Quantitative validation

The perspective relating to whether profitability by holding shares, including related trading profits and dividends, exceed capital costs, etc.

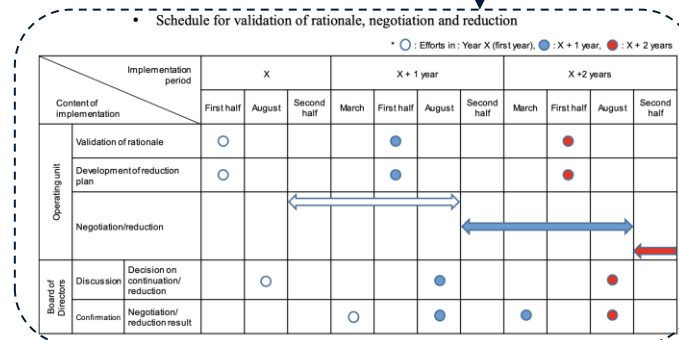
(Details of verification by the Board of Directors concerning the appropriateness of the holding of the respective stocks)

- The results of the above validation that takes place based on the holding policy, judgment regarding the continuation or disposal of held shares, and reduction plan are discussed at the meeting of the Board of Directors held every August, and the Group confirms the reduction result at the meeting of the Board of Directors held the following March.

- Process for validation of rationale
- Validation is conducted with a focus on continued qualitative rationality in accordance with the purpose at the time of acquisition.



Describes the schedule for validation of rationale, negotiation and reduction in a diagram



Example of J. FRONT RETAILING Co., Ltd.  
(Describes the schedule for validation of rationale, negotiation and reduction in a diagram)

# FSA's Good Practices of Disclosure of Cross-Shareholdings, Cont'd

- FSA selected the description of EXIT criteria by Itochu Techno-Solutions, a peer in the IT service industry, as an example of good practice of disclosure

## Corporate Governance \*Partial excerpt

### ▶ Strategic Shareholdings

CTC does not hold any shares purely for investment purposes. Investment securities held for purposes other than purely investment purposes fall into two categories: those held for general investment purposes and those held for investment in open innovation. Shareholdings that fall into these two categories are held for strategic reasons such as investment for the purposes of encouraging smooth transactions with partners, maintenance, expansion, or securing of system engineer (SE) resources, or the launching of new businesses.

Regardless of whether or not shareholdings are held for strategic purposes, the Company conducts an annual survey of the operations of all the companies in which it owns stock, and the Board of Directors determines whether it is

appropriate to maintain these holdings based on the qualitative and quantitative investment criteria set forth in the Company's investment management regulations. In principle, the Company will reduce such holdings if they are found to conform to predetermined exit criteria.

Regarding the exercise of voting rights conferred associated with the Company's shareholdings, rather than basing our decisions on uniform criteria, we will give careful consideration to the management plans and strategies of the companies in question and make decisions based on whether we believe actions will contribute to growth in corporate value over the medium to long term.

#### Investment Criteria

**Quantitative Criteria** Return on investment  $\geq$  Expected rate of return

#### Qualitative Criteria

##### · Investment in customers (end-users, etc.)

Securing of business merits other than trade merits such as development of new businesses, securing of business know-how, etc.

##### · Investment in development / technology partners

Securing of business merits such as prioritized access to SE resources or securing of leading-edge technological know-how

##### · Investment in suppliers

Building of strategic relationships that yield business merits such as preferential terms of trade, prioritized access to new technologies, or development of new businesses

##### · Investment in startup companies

Has sufficient financing to remain a going concern for at least one year

**Specific description  
on exit criteria**

#### Exit Criteria

1. Investment goals have been achieved.
2. Trade merits as defined by our quantitative criteria or business merits as defined by our qualitative criteria are no longer present.
3. For other reasons, the supervising department has determined that it is appropriate for the Company to exit (divest) from the investment.

Description on exit criteria of strategic shareholdings

# AVI's Suggestions on Reduction of Specified Equity Securities

- In the Notice of the Opinion of the Board of Directors regarding Shareholder Proposal dated April 28, 2021, NS Solutions 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, NS Solutions' stake in Recruit Holdings decreased only by about 20% in the past seven years, and NS Solutions 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.
- NS Solutions' disclosure of the purpose and quantitative effect of shareholdings does not meet the standards of FSA's best practices of disclosures and does not allow investors to understand the effects of holdings.
- In light of such situation, AVI proposes that NS Solutions make a public commitment to reduce its specified equity securities as follows.

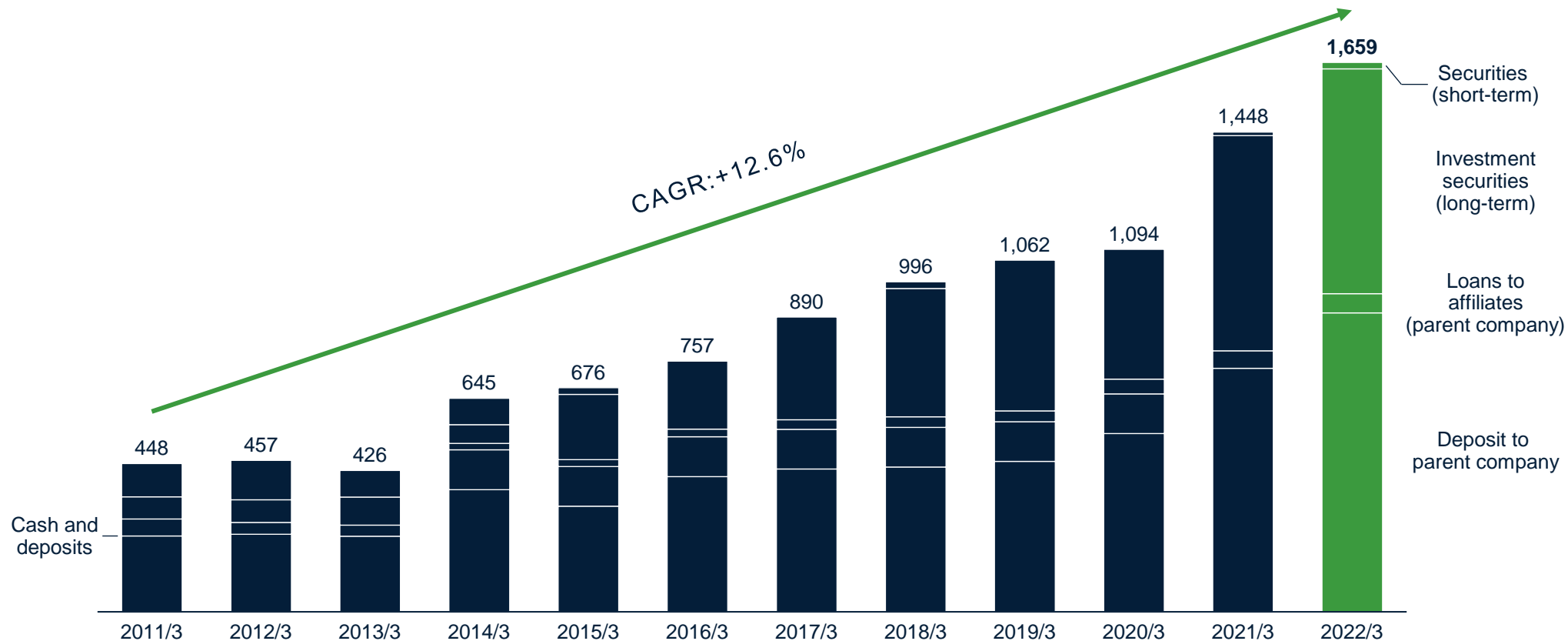
***Establish a policy to reduce strategic shareholdings, and unless due to unavoidable circumstances, sell or dispose of all strategic shareholding at fair value by 1st March 2023.***



# Cash Equivalents and Securities Trajectory

- Cash & deposits and securities reached Y160+bn as of FY2022/3. These have not been used for business investment e.g., returning capital to employees but remained on B/S

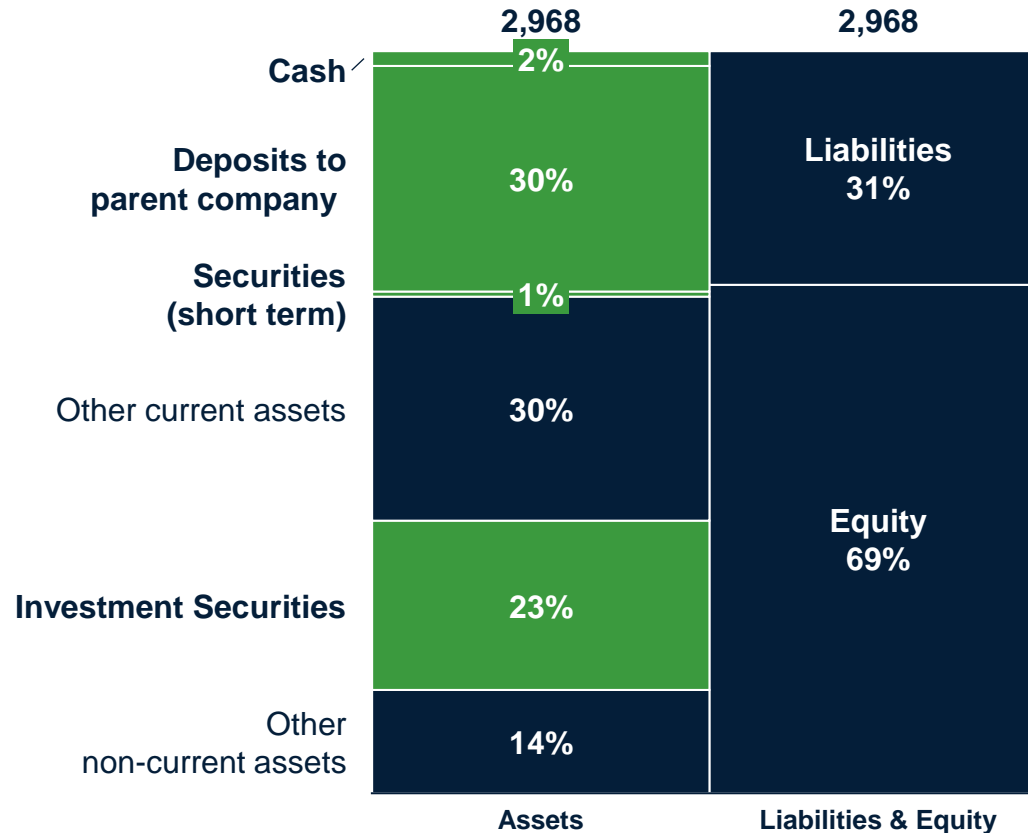
## Cash, deposits and securities (JPY bn)



# NS Solutions Balance Sheet

- Cash equivalents and investment securities account for 56% of total assets. **Value-creating business assets account for only 44% of total assets**
- From a cost of capital perspective, **return on cash equivalents is less than the cost of capital, resulting in an inverse spread**
- Investment securities are risk-weighted assets, which means that **a portion of shareholders' equity is used as a buffer**
- However, **liquidity should be at an appropriate level for working capital and future investments that will contribute to the sustainable enhancement of corporate value**

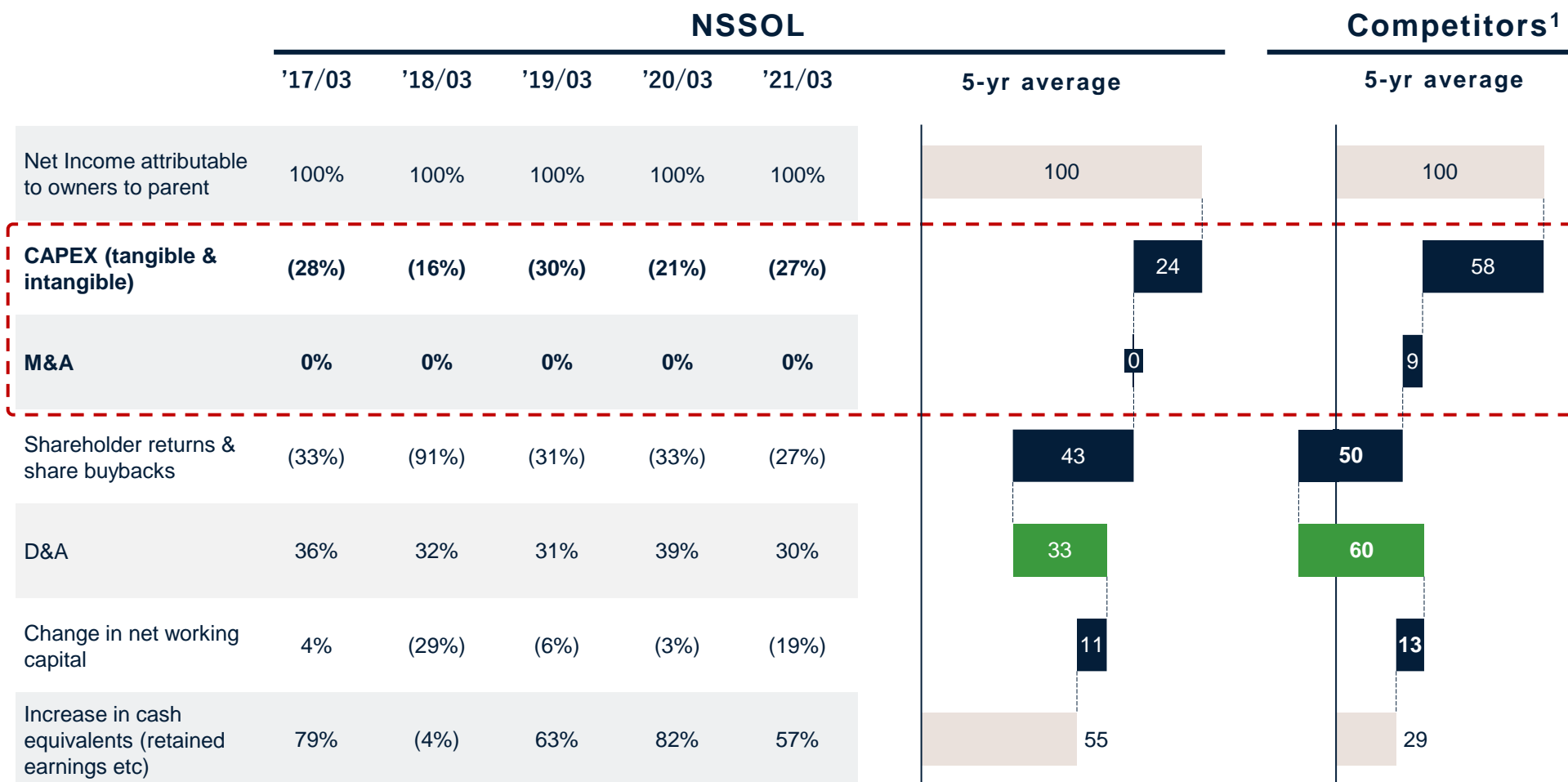
NS Solutions Balance Sheet (FY2022/3; JPY bn)



Source: AVI, based on NS Solutions Annual Report and the Financial Services Agency's Financial System Council Disclosure Working Group materials (2018)

# Cash Flows Comparison with Peers (Last 5 years)

- Compared to industry peers, NS Solutions has been reluctant to make capital investments, M&As or other investments to support growth



Note 1: Simple average of the percentage of net income of NTT Data, Nomura Research Institute, Itochu Techno-Solutions, SCSK, FUJISOFT, Fujitsu, Otsuka, TIS, BIPROGY, NSD, DTS, Net One Systems, Dentsu International Information Services, and Future Source: AVI, based on Capital IQ and SPEEDA databases

# Conflict of Interest Structure Due to Deposits to Parent Company

- Deposits to the parent company pose a structural conflict of interest risk, as noted by the Ministry of Economy, Trade and Industry

Ministry of Economy, Trade and Industry "Practical Guidelines on Group Governance Systems  
【Conflict of Interest Structure of Listed Subsidiaries】

- In listed subsidiaries, there is a structural conflict of interest risk between the parent company (the controlling shareholder) and public shareholders of the listed subsidiary
- 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.

## 【Specific situation where conflict of interests may arise in listed subsidiaries】





# AVI's Suggestions on Deposits with Parent Company

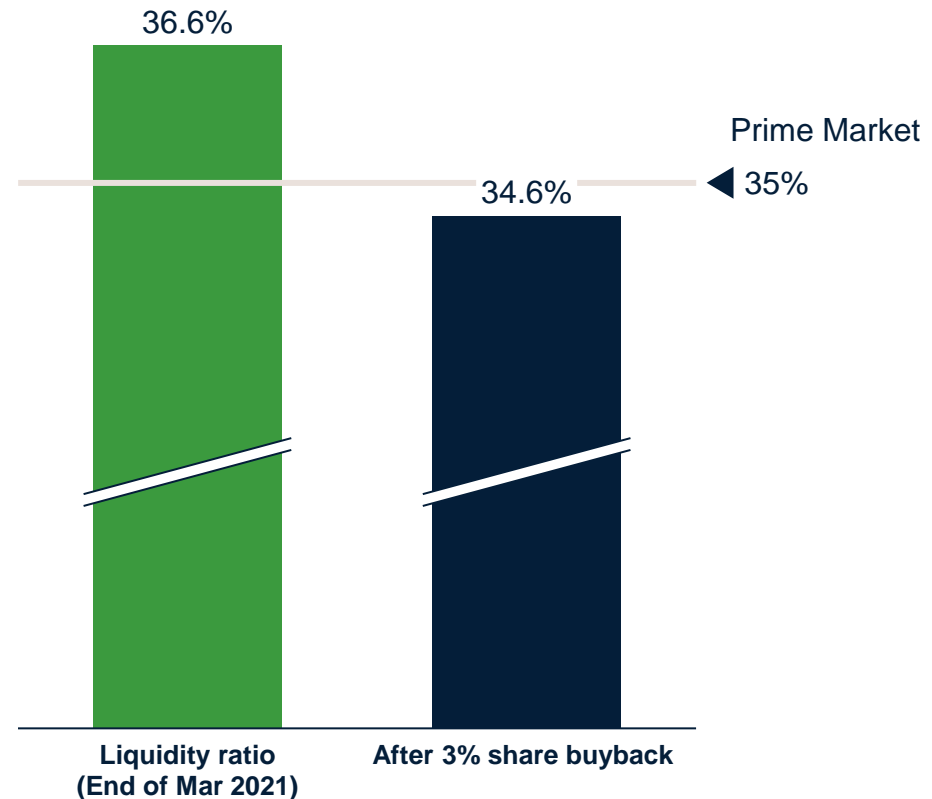
- Cash equivalents and investment securities of NS Solutions exceeded 160 billion yen in the most recent quarter. They have not been returned to human resources nor used for business investments, and remain sitting on the balance sheet. While AVI supports NS Solutions' policy to secure a sound financial base for business growth and business risks, holding above 50% of the total assets in cash equivalents and investment securities cannot be justified from the perspective of capital efficiency.
- In particular, NS Solutions receives an interest at a rate of about 0.2% for the deposits of approximately 90.2 billion yen to its parent company, significantly lower than its cost of capital.
- 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."
- Therefore, AVI proposes that NS Solutions establish a policy on deposits to the parent company as follows.

***Establish a policy not to make deposits to the parent company, its subsidiary, or affiliated companies, and to immediately recover the current deposits.***

# Concerns about Liquidity Ratio

- The current shareholding by Nippon Steel is 63.4% (as at the end of Mar 2021)
- If NSSOL were to attempt to return capital to shareholders through a share buyback, a buyback of more than approximately 2.4% would breach the TSE Prime Market criteria unless the parent company agreed to the buyback
- By reducing the parent company's shareholding to a certain level, conflicts of interest with potential minority shareholders can be mitigated

## Simulation of liquidity ratio (3% share buyback scenario)<sup>1</sup>



**Note 1:** Only treasury shares and Nippon Steel's share are counted as non-tradable shares  
**Source:** AVI, based on NS Solutions' Annual Report (41st term)

# Concerns about Free-float Weight Ratio, Cont'd

Last year, we submitted a shareholder proposal requesting the acquisition of treasury stock through a buyback from the parent company. In response, NS Solution objected to our shareholder proposal claiming that “in light of improving capital efficiency and expeditiously achieving our capital policy, we acquired treasury shares for 30 billion yen in total during the fiscal years ending March 2015 and March 2019. We intend to continue acquiring treasury shares at the right time in a proper manner to improve capital efficiency and expeditiously achieve our capital policy.”

In addition, in light of improving capital efficiency and expeditiously achieving our capital policy, we acquired treasury shares for 30 billion yen in total during the fiscal years ending March 2015 and March 2019.

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.

While it seemed as though NS Solutions would continue to mobilize several tens of billions of yen to acquire treasury shares at will, if NS Solutions wishes to remain on the Prime Market, a share buyback that involves acquiring treasury shares from public shareholders is almost not an option. NS Solutions' reasoning in the timely disclosure was formulated merely to object to our shareholder proposal, and is not viable. The Board of Directors of NS Solutions is devaluing the interest of minority shareholders.

Even after FY2019 and in the past year, NS Solutions has not conducted any share buyback that would improve capital efficiency.



## Concerns about Free-float Weight Ratio, Cont'd

In response to AVI's 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.”*

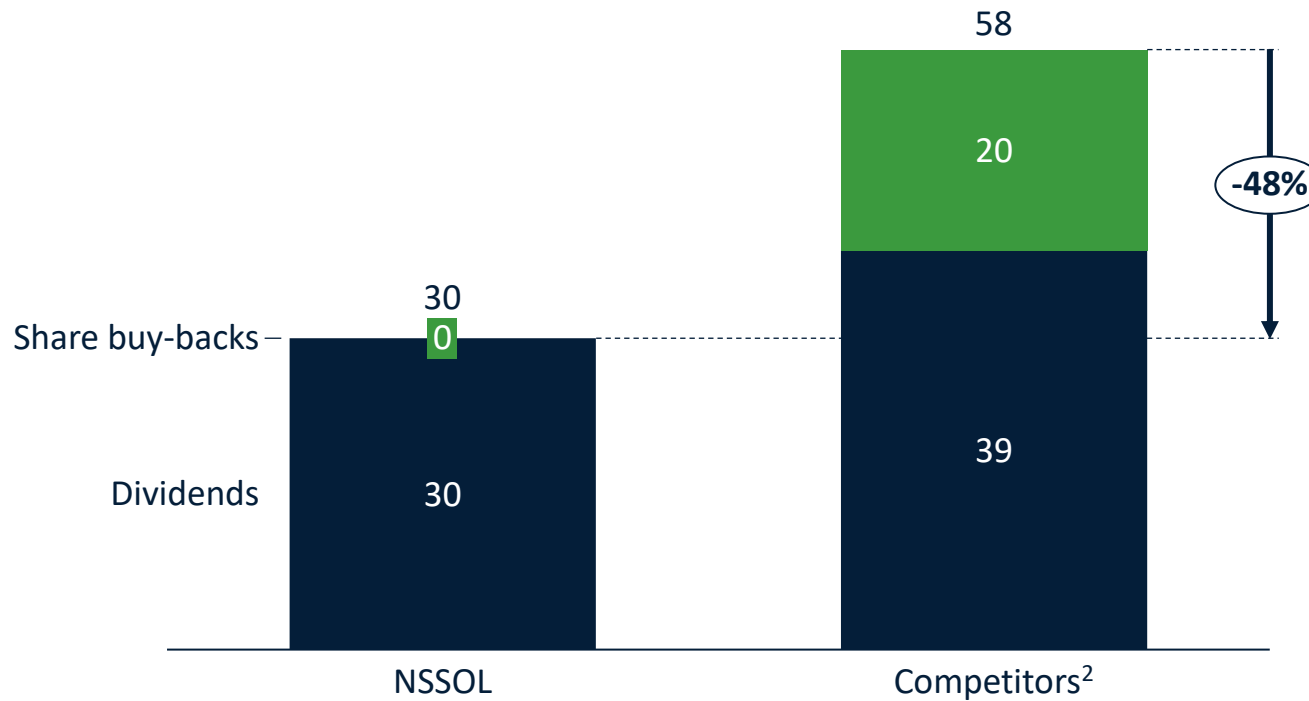
According to this response, Nippon Steel seems to be fully aware that, by maintaining the current holding of approximately 63.4% of NS Solutions' outstanding shares, it is depriving NS Solutions of the option of returning to shareholders through a share buyback, and believes that its subsidiary should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



# Shareholders Return Comparison with Peers

- NS Solutions' total payout ratio for the FY2022/3 was almost half of the average of peers

## Comparison of total payout ratio (%)<sup>1</sup>



Note 1: FY2021


Note 2: Fujitsu, NTT Data, Otsuka, Nomura Research Institute, Itochu Techno-Solutions, TIS, SCSK, BIPROGY, FUJISOFT, NSD, DTS, Future, Net One Systems, Dentsu International Information Services

Source: Capital IQ, SPEEDA, AVI

# Employees' Governance Concerns about Parent-Sub Listing




- While some say that NS Solutions has the advantage of being able to conduct trial and practice through collaboration with parent, others claim that the current high shareholding by the parent prevents NS Solutions from making growth decisions without consulting the parent




**We have the advantage of being able to leverage Nippon Steel brands. We can do interesting things because we can experiment in the steelworks of Nippon Steel.**

(Corporate, 5-10 yrs, Jan 2021)




**NSSOL's strength is its ability to conduct trial practices through collaboration with its parent company.**

(Engineer (current), 5-10 yrs, Mar 2020)




**The capital relationship with Nippon Steel should be weakened. We do not have the decision-making power to proceed our own growth strategy.**

(Steel SE (current), 5-10 yrs, Aug 2021)



**The parent company has large shareholding, so any new challenges, including investments, require the approval of the parent company, including laying the groundwork.**

(Engineer (current), 15-20 yrs, Apr 2020)



**When the company was founded, it was clearly declared that there would be no staffing from the parent company to us, but this has not been the case anymore.**

(Engineer (current), 15-20 yrs, Apr 2020)

# AVI's Suggestions on Share Buyback from Parent Company via Discount TOB (1/3)

- The parent company currently owns 63.4% of NS Solutions' outstanding shares, so if NS Solutions wishes to remain on the Prime Market, general shareholders are, in essence, deprived of the option of shareholders return through a share buyback. Through dialogue with AVI, it became clear that the parent company Nippon Steel is fully aware of this.
- Comparing NS Solutions' total payout ratio to other companies in the IT service industry, NS Solutions' total payout ratio for the fiscal year ending March 31, 2022 was about 30%. This is almost half of the average for other companies' payout ratio in the industry, which is about 58%. Looking at the breakdown, 39% of the payout ratio for other companies in the industry is dividends and 20% is share buybacks, while 30% of the payout ratio for NS Solutions 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 NS Solutions 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."

# AVI's Suggestions on Share Buyback from Parent Company via Discount TOB (2/3)

- Furthermore, due to the extremely high shareholding ratio of the parent company, it is necessary to closely monitor whether the personnel arrangements for NS Solutions' directors are designed to respect the interests of general shareholders to the maximum extent. Director Funakoshi Hirofumi, the new internal director who joined NS Solutions 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 NS Solutions 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 9 years from 2013 to 2021, there are posts on several internet forums claiming that there have been incidents of power abuse and sexual harassments at Nippon Steel. Moreover, in June 2021, it was revealed that a then male employee (at the time) 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, it is debatable whether the Nippon Steel director is the best director choice for NS Solutions from the perspective of "skills in human resources, labour policy and human resources development" and to build a sustainable working environment for NS Solutions' employees.
- If NS Solutions 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 NS Solutions' shareholders being able to enjoy sustainable opportunities for shareholder return in the future.



# AVI's Suggestions on Share Buyback from Parent Company via Discount TOB (3/3)

- With these issues, AVI proposes the following action to be taken.

***Promptly initiate discussions with the parent company to reduce the parent company's percentage of voting rights to about 60%<sup>1</sup> through a share buy-back of 7,834,000 shares from the parent company Nippon Steel via a discounted TOB or other arrangements within one year from the conclusion of the 42nd Ordinary General Meeting of Shareholders in June 2022.***

- 1 NS Solution's Evaluation by the Market
- 2 Suggestions for Sustainable Corporate Value Enhancement
- 3 Summary of Suggestions

## Agenda

# Summary of AVI's Suggestions for Sustainable Corporate Value Enhancement

- Promptly initiate discussions with the parent company to reduce the parent company's percentage of voting rights to about 60%<sup>1</sup> through a share buy-back of 7,834,000 shares from the parent company Nippon Steel via a discounted TOB or other arrangements within one year from the conclusion of the 42nd Ordinary General Meeting of Shareholders in June 2022.
- Establish a policy to reduce strategic shareholdings, and unless due to unavoidable circumstances, sell or dispose of all strategic shareholding at fair value by 1st March 2023.
- Establish a policy not to make deposits to the parent company, its subsidiary, or affiliated companies, and to immediately recover the current deposits.
- Establish a special investigative committee (“Special Investigation Committee”) for the purpose of investigating compliance-related matters such as sexual harassment and power harassment at NS Solutions. The Special Investigation Committee shall be composed of members of qualified lawyers who are independent from both NS Solutions and the Directors of NS Solutions. The Special Investigation Committee must disclose of its investigation by way of a report, including remedial measures by 1st September 2022.

Note 1: Assuming 58,033,800 shares held by the parent company (as of Mar 31, 2021), 91,501,000 outstanding shares of NS Solutions (as of Feb 10, 2022), and 700 shares of treasury shares (as of Dec 31, 2021)

# Concluding Remarks

AVI has been investing in Japan for over two decades. Our newly established London Stock Exchange Listed Fund (AJOT), which invests exclusively in Japanese listed companies, celebrated its third anniversary as of October 2021. As a long-term investor, AVI is committed to constructive dialogue with companies frequently in order to support the potential value of Japanese companies over the long term.

As a long-term investor in NS Solutions, we are committed to all stakeholders, including the management and employees of NS Solutions, their families, clients, and shareholders other than AVI. We look forward to continuing to accompany NS Solutions on its journey to become a leading-edge company in DX and digital solutions in the IT services domain, while also taking environmental, social, and governance concerns into consideration.

In the Corporate Governance Code revised last year by the Tokyo Stock Exchange and the Financial Services Agency, it is now clearly stated that *“Controlling shareholders should respect the common interests of the company and its shareholders and should not treat minority shareholders unfairly, and accordingly, companies with a controlling shareholder are required to develop a governance system to protect the interest of minority shareholders.”*

The significant undervaluation of NS Solutions is an indication of the lack of governance resulting from the parent-subsidary listing. In order to resolve this issue, a governance structure and capital discipline that gives maximum consideration to the interests of minority shareholders must be quickly implemented.

We would like to express our wholehearted support for NS Solutions’ concept of “People are the greatest asset.” It goes without saying that human resources are the root of value creation in the ever-innovating IT services industry, and we are convinced that building an environment in which all employees can thrive is the most important driving force for NS Solutions’ sustainable growth in corporate value.

NS Solutions has accumulated valuable management resources in the form of retained earnings. These resources should not be returned only to the pursuit of short-term profits for a few stakeholders, nor should they remain on the corporate balance sheet and not be returned to any of the stakeholders. We sincerely hope that these valuable management resources will be returned to the various stakeholders in a balanced manner, and thereby transformed into sustainable innovation for NS Solutions.

We highly appreciate the explanation by NS Solutions’ top management that it will steadily seize the tailwind of DX and become a top runner in the IT services industry, and going forward, NSSOL will comply with the Corporate Governance Code at the highest level as a Prime Market listed company and become a top runner in terms of governance.



# Disclaimer

# Disclaimer

This document has been prepared to serve as reference in a communication between AVI and NS Solutions Corporation (hereinafter referred to as the "NS Solutions") for the purpose of enhancing the corporate value of NS Solutions, and to provide information to the shareholders of NS Solutions. It is not intended to be relied upon by NS Solutions or any other third party.

This document was prepared based on the annual securities reports and other financial statements published by NS Solutions and its competitors, and other publicly available information as well as information that AVI collected on its own as at 16<sup>th</sup> May 2022. AVI does not have any intention to express any opinion externally in respect of any content contained in this document including premises or assumptions.

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AVI does not intend to propose, either by itself or by any closely related person, to become an officer of NS Solutions, to transfer or discontinue the business or assets of NS Solutions, by itself or through other shareholders of NS Solutions at the shareholders' meeting of NS Solutions, or to access non-public technical information relating to the business of NS Solutions. In addition, AVI does not intend to engage in any conduct that makes it difficult for NS Solutions to continuously and stably conduct its business.

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