Maximizing Corporate Value of NS Solutions (Summarized and Updated Version of 3D Corporate Value Enhancement Plan)

March 31, 2025

3D INVESTMENT PARTNERS

Executive Summary

- **NS Solutions Corporation ("NSSOL") suffers from many weaknesses, including missed growth and profitability opportunities, as well as an inefficient balance sheet**

1 Improvement in Profit & Loss ("P&L") statement (profit maximization):

1. Review of pricing for Nippon Steel
2. Review of pricing for other customers
3. Reallocation of resources away from low-return projects
4. Reduction in outsourcing costs of subcontractors
5. Increase in offshore share of outsourcing
6. Reduction in headcount and personnel expenses
7. Reduction of other costs
8. Development of domestic steel manufacturer customers
9. Development of overseas steel manufacturer customers

— These improvement measures are expected to increase profits by approximately 19 billion yen (16.7 billion yen[1] after deducting the impact of price up FY25/3)

2 **Improvement in balance sheet (maximization of investment capital):**

1. Redeployment of cash deposits that fall below the cost of capital
2. Sale of strategic shares and utilization of proceeds from selling Recruit shares
3. Sale of other securities that return below the cost of capital
4. Improvement of cash conversion cycle

— These improvement measures are expected to yield 184.4 billion yen in capital

3 **Improvement in capital allocation (maximization of value through reinvestment):**

— Investing in sales origination, R&D and M&A within existing product market areas

— Investing in new areas / diversification

— Buying back shares

- **In our view, the root cause of these weaknesses is NSSOL's lack of independence from its parent company, Nippon Steel. This is evidenced by:**

— A Board of Directors that is dominated by directors from Nippon Steel. Proxy advisory firms ISS and Glass Lewis have criticized the lack of independence of NSSOL's Board

— The fact that 40% of NSSOL's net assets are deposited with Nippon Steel at an interest rate of 0.2%, which is below NSSOL's cost of capital. This enables Nippon Steel to secure low-cost financing at the expense of NSSOL's corporate value and the interests of its minority shareholders

— Preferential pricing for Nippon Steel in its contracts with NSSOL, which undermines NSSOL's profitability

— Proxy advisory firms ISS and Glass Lewis have criticized deficiencies in NSSOL's governance

- **Deficiencies in NSSOL's governance framework have led to a lack of management focus on maximizing corporate and shareholder value, resulting in unresolved issues**

NSSOL should improve its corporate governance and seek full independence from Nippon Steel so that it can maximize corporate value

Note: [1] The effects of price increase measures already undertaken by the company have been deducted;"¥1.7 billion gross profit improvement from value-added OP and others through FY25/3 Q3" ×"¥3.8 billion gross profit improvement for FY25/3 (excluding bonus reserve differences)" ÷"¥3.1 billion gross profit improvement through FY25/3 Q3" =Gross profit improvement of ¥2.1 billion attributable to annual price increase impact has been deducted.

NS Solutions Corporation ("NSSOL") suffers from many weaknesses, including missed growth and profitability opportunities, as well as an inefficient balance sheet

Section 1 (p.10-50)

Improvement in P&L Statement (Profit Maximization)

Opportunity for Improvement

1. Review of pricing for Nippon Steel
2. Review of pricing for other customers
3. Reallocation of resources away from low-return projects
4. Reduction in outsourcing costs of subcontractors
5. Increase in offshore share of outsourcing
6. Reduction in headcount and personnel expenses
7. Reduction of other costs
8. Development of domestic steel manufacturer customers
9. Development of overseas steel manufacturer customers

Section 2 (p.51-60)

Improvement in Balance Sheet (Maximization of Investment Capital)

Opportunity for Improvement

1. Redeployment of cash deposits with Nippon Steel that fall below the cost of capital
2. Sale of strategic shares and utilization of proceeds from selling Recruit shares
3. Sale of other securities that return below the cost of capital
4. Improvement of cash conversion cycle

Section 3 (p.61-69)

Improvement in Capital Allocation (Maximization of Value Through Reinvestment)

Opportunity for Improvement

1. Investing in sales origination, R&D and M&A within existing product market areas
2. Investing in new areas / diversification
3. Buying back shares

The root cause of these issues is NSSOL's lack of independence from its parent company, Nippon Steel, and the absence of an appropriate governance framework to support corporate value

NSSOL does not seem to have achieved independence from its parent, Nippon Steel

Board Composition

- **Mr. Hiroto Naitoh, Nippon Steel's Managing Executive Officer, has been appointed** as a non-executive director
- **A majority (8) of NSSOL's 13 directors are from Nippon Steel**

Transactions with Nippon Steel

- NSSOL sets prices for projects with Nippon Steel **to yield the company-wide average profit margin**
- In the SI industry, work for long-standing clients is generally priced to yield higher than average margins. **NSSOL's target profit margin for work performed for Nippon Steel should be 5 percentage points higher than the company average** (p.17)

Deposits with Nippon Steel

- NSSOL has approximately **96 billion yen in cash on deposit** with Nippon Steel
- **The interest rate is an extremely low 0.2%**, well below NSSOL's cost of capital

There are conflicts of interest between a parent company and minority shareholders of a listed subsidiary A lack of independence can impair effective oversight and governance

- **In the case of a listed subsidiary, there is an inherent conflict of interest between the controlling shareholder (parent company) and minority shareholders. The controlling shareholder has the power to influence the listed subsidiary in a way that favors the controlling shareholder's interests at the expense of minority shareholders**

> *"If the company has a parent company, there is a risk of conflicts of interest between the listed company and its minority shareholders and the parent company in situations such as transactions with the parent company, coordination and distribution of business opportunities and lines of business, etc."*
>
> Disclosure of a listed company that has a parent company

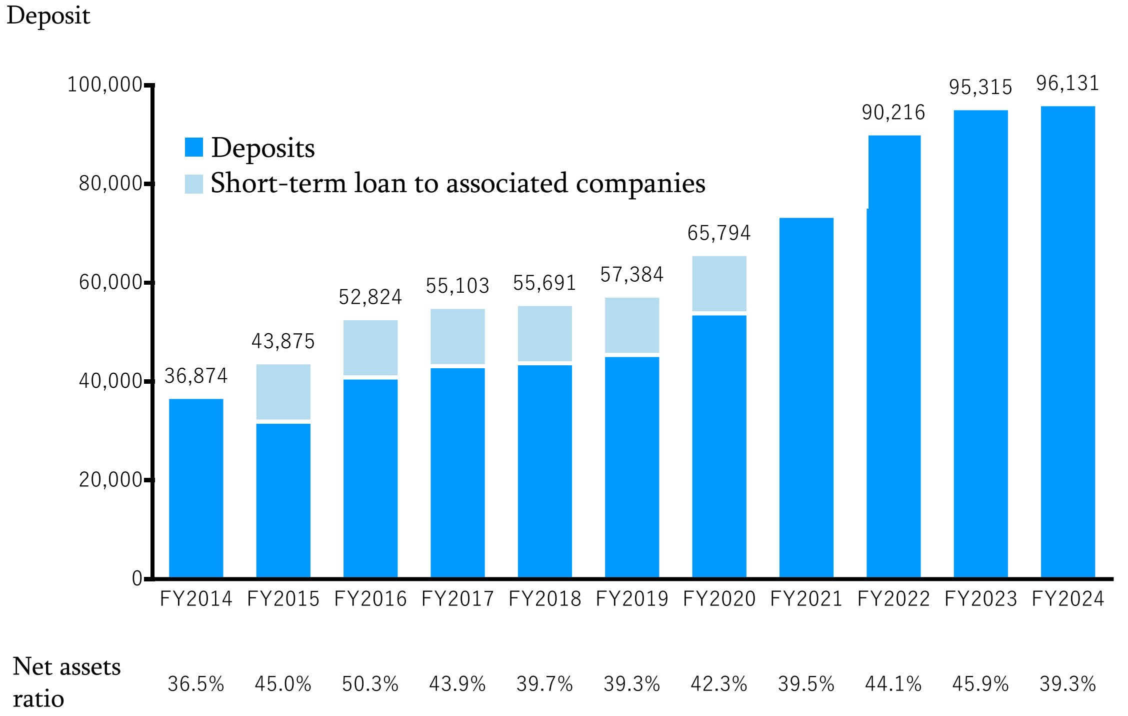
> *"There is a risk of conflict of interest(risk of structural conflicts of interest) where a controlling shareholder exercises its influence for its own interests (interests other than those as a shareholder), and thereby the interests of minority shareholders are impaired and only the controlling shareholder benefits from it."*
>
> Roles expected of independent outside directors of a listed company that has controlling shareholders or dominant shareholders

- **If the listed company has not achieved complete independence from its parent company, it will continue to be managed in the interest of the parent company, and a proper governance framework will not be established**

NSSOL should seek complete independence from Nippon Steel so that corporate value can be maximized with a properly established governance framework

A lack of independence from Nippon Steel and the absence of a proper governance framework necessary for maximizing corporate value create a clear conflict of interest between the parent company and minority shareholders (1/3)

The deposits made to Nippon Steel have been increasing each year, and currently stand at 96.1 billion yen (40% of NSSOL's net assets)



Interest rate of NSSOL's deposits is 0.2%, which is clearly below its cost of capital

Interest income from deposits (FY2024/3)		Average deposit balance during the period(FY2024/3)		Interest rate of deposits
215 million yen	÷	95,723 million yen	=	0.2%

Consolidated fiscal year (from April 1, 2023 to March 31, 2024)

(in million yen)

Type of company	Company name	Relationship with related parties	Transaction amount	Outstanding balance
Parent company	Nippon Steel Corporation	Sales of products, etc.	62,509	15,274
		Deposit and lending of funds	(Fund deposit) 80,100 (Reversal of funds) 79,500 (Interest income) 215	96,131
Parent company's subsidiary	Nippon Steel Texeng Co., Ltd.	Intended acquirer of shares	8,143	8,143

Although the parent company can raise funds at low interest rates, NSSOL's corporate value and minority interests suffer

A lack of independence from Nippon Steel and the absence of a proper governance framework necessary for maximizing corporate value create a clear conflict of interest between the parent company and minority shareholders (2/3)

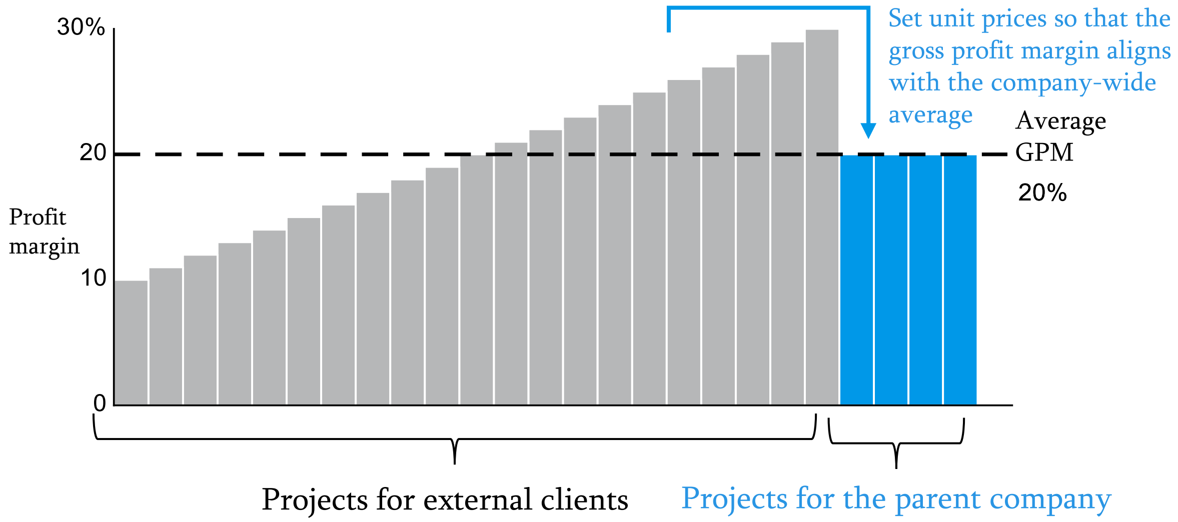
NSSOL's projects with Nippon Steel are projects that generally carry high margins in the SI industry

Detailed on p. 17-21

Requirements for projects with high profit margins		Characteristics of projects with the parent company for NSSOL
Customers' price elasticity is low (i.e., less pressure to cut prices)	Limited price competition with competing SIs	*"NSSOL manages all the core systems of the parent company, so there will be no competition with other SIs"* — Former Management Manager, NSSOL
	Common understanding among customers and SIs about the quality of deliverables	*"Originally, we were the parent company's IT department, so we naturally understand each other's needs and expectations well. As a result, issues like discrepancies in the quality or understanding of deliverables that often arise with external customers rarely occur."* — Former Team Leader, NSSOL
	High switching costs	
Lower costs relative to sales	Low sales cost	*"We don't have to make sales pitches to the parent company, which we do to external customers. While we have employees seconded to the parent company's IT division, even taking that into account, the sales effort required is about one-quarter of what is needed for an average external client."* — Former Group Leader, NSSOL
	Limited man-hours and costs for gaining customers' understanding on business and other preparation of projects	*"Generally, with customers with short transaction histories, it takes us certain amount of time for initial understanding of their existing systems and data structures, but with the parent company, we are already familiar with their systems."* — Former Management Manager, NSSOL
	Easy to estimate the work period and man-hours at the time of project design	*"The volume of orders and development details are determined according to the parent company's IT investment plan, which allows us to grasp the timeline and required man-hours early on. Also, the process leading up to the order is clear through seconded employees, minimizing the risk of estimation errors."* — Former Group Leader, NSSOL

The unit price for projects with Nippon Steel is set "to align with the company-wide average gross profit margin."

Visualization of "company-wide average gross profit margin" (%)



"The unit prices for projects with Nippon Steel are at the same level as the company-wide average. I do not think we accept their orders at a lower price."

Undisclosed

"The basic approach is to adjust the gross profit margin for projects with the parent company to align with the company-wide average."

Undisclosed

NSSOL is not realizing potentially high profit margins from projects for the parent company, and while the parent company benefits from services at competitive prices, corporate value and minority interests suffer

A lack of independence from Nippon Steel and the absence of a proper governance framework necessary for maximizing corporate value create a clear conflict of interest between the parent company and minority shareholders (3/3)

NSSOL's services appeal to both domestic and overseas steelmakers,
but they are reluctant to engage with NSSOL due to concerns around its relationship with the parent

Detailed on p. 44-50

8 Development of Domestic Steel Manufacturer Customers | By alleviating concerns regarding its relationship with Nippon Steel, other domestic steel manufacturers are also expected to adopt NSSOL's core systems.

Due to a lack of human resource capacity in their own SI subsidiaries, steel manufacturers are proactively outsourcing the core system renewals

"JFE Systems are recently putting emphasis on the recruitment of project managers, and there is a shortage of engineers. Since there are insufficient resources to conduct core system renewals for all works of JFE Steel, JFE needs to outsource a certain portion of this service to others"

Undisclosed

"Since core system renewals for each of the works (of KOBELCO) cannot be processed by resources of its subsidiary (KOBELCO SYSTEMS) alone, we have no other choice but to outsource the service"

Undisclosed

"In 2021, when the opening up of Sendai core system main frame was planned, (JFE Steel) had decided to engage TIS, which is an outside SI, due to the shortage of staff at Systems subsidiary alone "

Undisclosed

Outsource candidates have a strong preference for using NSSOL if their concerns related to NSSOL's relationship with Nippon Steel are resolved

"For example, NEC and Fujitsu do not offer much guarantee or countermeasures if the machines stop at works, and if there is any breakdown in the machines, they will handle the matter only in accordance with the manual and make replacements. Since NSSOL is a steel industry expert and is technically capable of adjusting the machines instead of replacing them, they are able to handle speedily and probably minimize the loss of operating ratio. From the steel manufacturer's point of view, NSSOL is an ideal party to engage for core system renewal"

Undisclosed

"Given the expertise and project performance in the steel industry. and comparing with Tier 1 such as Fujitsu and NEC, NSSOL is predominantly stronger in Japan. If we can borrow NSSOL's intelligence, we would like their support for our core system renewal "

Undisclosed

"NSSOL has advantage over Fujitsu, etc. in terms of steel industry core system renewal projects. (If it separates from Nippon Steel) we would be able to engage NSSOL for such projects"

Undisclosed

9 Development of Overseas Steel Manufacturer Customers | Excluding certain manufacturers that have historically collaborated with Nippon Steel, some steel manufacturers have noted that that "executing transactions with NSSOL is difficult given the relationship between NSSOL and the parent company"

Global steel manufacturers that are concerned with the relationship between NSSOL and its parent company

ArcelorMittal

"If the parent company of a SI is another steel manufacturer, we do not outsource the service to it regardless of region. In order to avoid any leakage of confidential information to competitors, (ArcelorMittal) engages Infosys, which is not from the steel industry"

Undisclosed

"Since other EU steel manufacturers are also concerned with the leakage of data to competitors, we outsource system development projects to SI not from the steel industry"

Undisclosed

POSCO

"Due to concerns regarding internal data leakage, we do not engage any SI affiliated with the competing steel manufacturers. This applies even more to Nippon Steel, which is a competitor in the same Asia region "

Undisclosed

"If production plan data or any other confidential data is leaked, competitors may use it to offer more advantageous production plan and pricing"

Undisclosed

Global steel manufacturers that have historically cooperated with Nippon Steel

TATA STEEL

"In 2011, Nippon Steel and TATA formed a JV and established an automobile equipment manufacturing plant in India. The transaction is not deemed as a risk since both companies have built a strong relationship and issues related to information leakage never occurred. Projects are not refused because of the relationship with the parent company"

Undisclosed

"If it is possible to be independent from the parent company, NSSOL will presumably be able to act more freely. Perhaps it may also be able to obtain development projects from other Indian manufacturers"

Undisclosed

NUCOR

"We had established an automotive steel sheet plant in Mexico jointly with JFE, and we have a long-term relationship with Japanese steel manufacturers. Therefore, The fact that NSSOL is an affiliate of Nippon Steel will not cause any negative effects"

Undisclosed

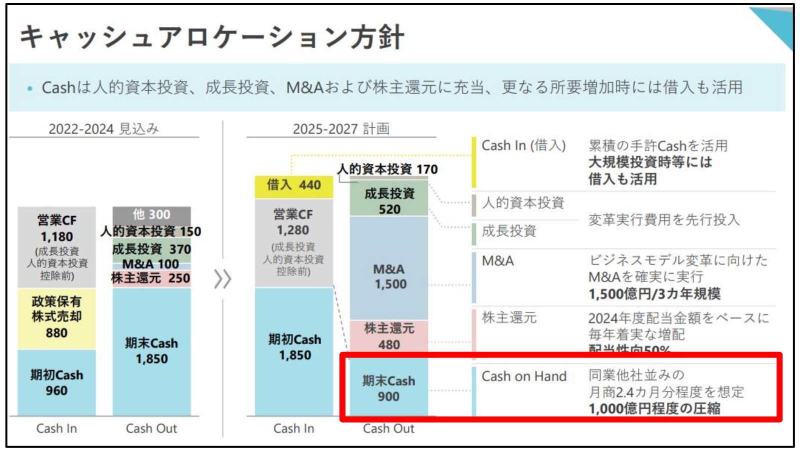
"Since other American steel manufacturers also have a long-term relationship with Japan, there is little resistance to engaging NSSOL (subsidiary of Nippon Steel)"

Undisclosed

While the parent company can grow from advertising its own value-added NSSOL service offerings in the steel industry, NSSOL's potential is being suppressed due to its inability to work with steel industry clients (i.e., the parent's competitors), resulting in a situation where corporate value and minority interests suffer

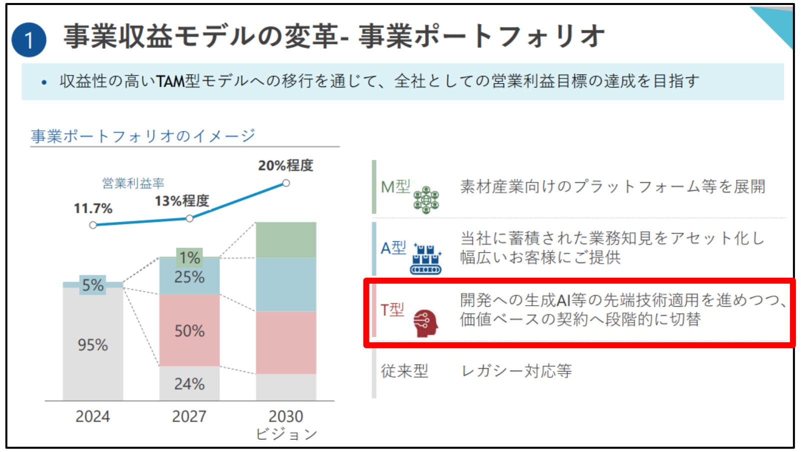
It has not been made clear in the new medium-term plan whether the conflict of interest between the parent company and minority shareholders will be resolved

Deposits with Nippon Steel



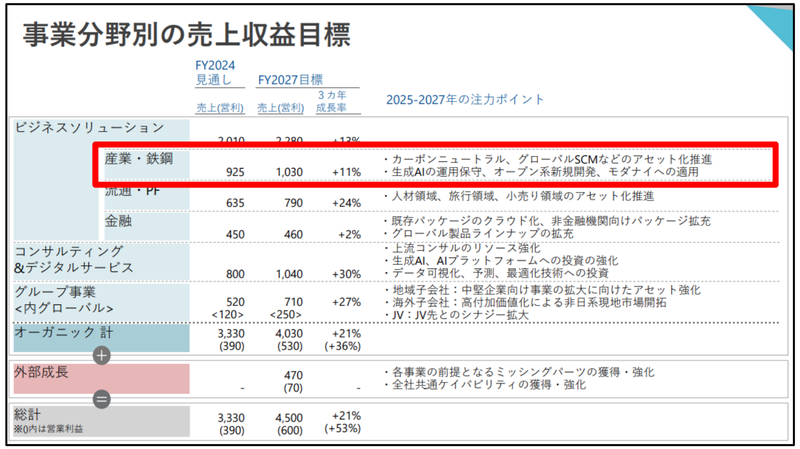
- They state that they will reduce the year-end cash balance to 90 billion yen, which is the same level as the current deposit balance
- It appears they have set the year-end cash target on the assumption that the deposits will remain in place (i.e., will not be liquidated)

Pricing for Nippon Steel



- They say they will gradually switch to value-based contracts.
- However, there is no mention of whether, under those value-based contracts, the pricing for the parent company will be set such that their profitability exceeds the company-wide average

Development of Other Steel Manufacturer Customers



- The sales targets for the industrial and steel segments have been set on the premise that they will not capture demand from steel manufacturers other than Nippon Steel

Leading proxy advisory firms have expressed concerns around NSSOL's governance, and the approval rate among minority shareholders for the proposal to appoint the president remains low

Both ISS and Glass Lewis pointed out deficiencies in NSSOL's governance at the previous AGM

- Glass Lewis **recommended against Representative Director & President Mr. Tamaoki** at the 2024 AGM, **citing problems with the Board's lack of independence**

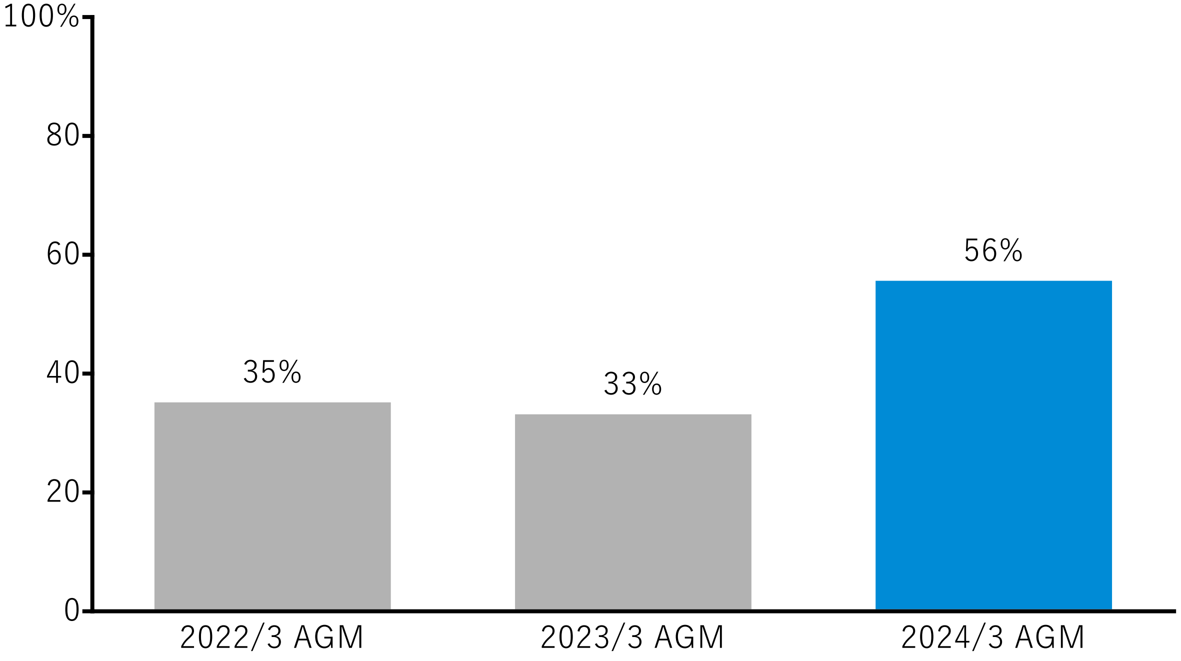
> *"In our view, the Board does not have a sufficient number of independent directors and we have serious concerns about the Board's objectivity, independence, and ability to provide adequate oversight. In view of the lack of a sufficiently independent Board of Directors, it is recommended that you vote against the candidate Mr. Kazuhiko Tamaoki (Representative Director & President) in order to meet the criteria for independence that you deem appropriate."*

- ISS **recommended against Representative Director & President Mr. Tamaoki** at the 2023 AGM, **due to inappropriate capital allocation resulting from NSSOL's significant strategic shares**

> *"Although the company discloses some information on strategic shares as of March 2023, the level of disclosure is not sufficient for ISS to apply its strategic shareholdings policy. Therefore, the voting recommendation is based on the company's most recent annual report (as of March 2022). NS Solutions allocates 29.5% of its net assets to cross shareholdings, which does not meet the ISS threshold, and inappropriate capital allocation is the responsibility of senior management."*

The approval rate among minority shareholders for the proposal to appoint the president remains low, at just 56%

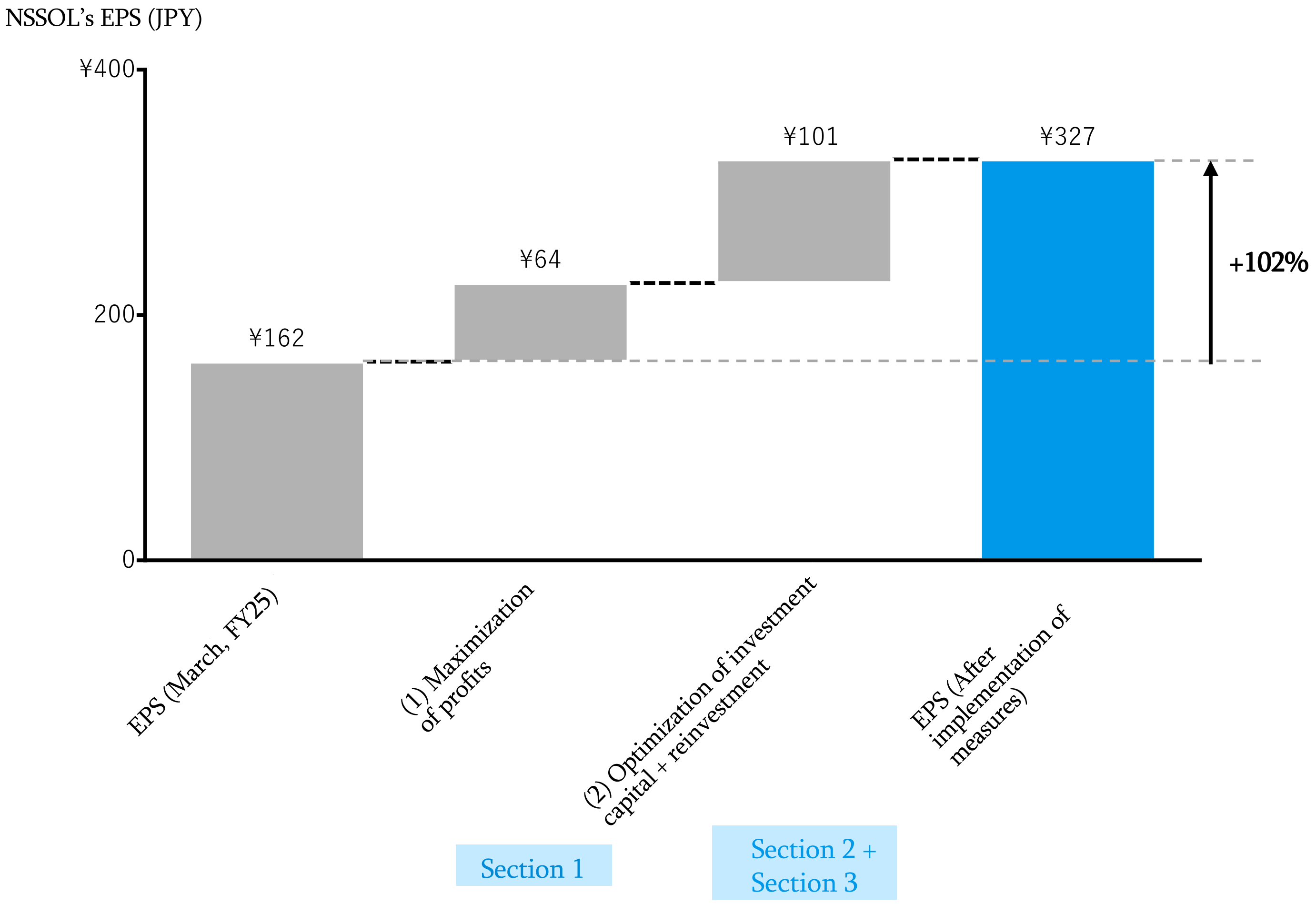
Percentage of minority shareholders voting in favor of the proposal to elect the president[1]



Note: [1] Calculated on the assumption that Nippon Steel exercises all of its voting rights in favor of the proposal
Source: Extraordinary Report; ISS/ Glass Lewis Proxy Advisory Report (translated by us)

By securing independence from Nippon Steel, NSSOL can focus on maximizing corporate value, potentially leading to significant growth in cash flow per share (≈EPS)

We believe NSSOL can increase EPS[1] by approximately 102% by implementing our proposed reforms



Assumptions for EPS improvement impact calculations

- **EPS forecast for March FY26**
  - — Calculated by dividing Analyst's forecast net profit for March FY26, 29.6 billion yen, by the total number of issued shares (excluding treasury shares), 180 million
- (1) **Improvement in P&L Statement (Profit Maximization)** – Section 1
  - — Operating profit will increase by 16.7 billion yen through profitability improvements and revenue expansion measures (Net profit improvement of 11.6 billion yen)
- (2) **Improvement in Balance Sheet (Maximization of Investment Capital) and Improvement in Capital Allocation** – Sections 2 + 3
  - — Reinvesting the 184.4 billion yen in investment capital acquired through optimizing the balance sheet into core businesses at a hurdle rate of 12.4%[2] could result in an **increase of 18.4 billion yen in net profit**
    - ➢ Reinvestment scenario: If a company with a 19% ROIC and an annual 5% net profit growth is acquired at an EV/NOPAT multiple of 10x (resulting in a net profit of 18.4 billion yen for an investment capital of 184.4 billion yen), an IRR of 12.4% can be achieved

Notes: [1] EPS is used as an alternative indicator for cash flow per share [2] This is the amount of NSSOL's capital cost we estimated, 8.4%, plus additional 4.0% (See p. 63 and thereafter)

Section 1: Improvement in P&L Statement (Profit Maximization)

3D INVESTMENT PARTNERS

Section 1: Improvement in P&L Statement (Profit Maximization)

- **Domestic system integrators (SIs) have strengthened their sales and profitability. IT investment and a shift from labor-intensive to service-oriented businesses are major sources of greater demand**
- **The SI market is expected to continue to grow at a steady rate of 5% per year, with cloud computing and business process automation centered on ERP being significant growth areas**
- **At the same time, with rising personnel expenses and changes in the external environment and industry structure, there is growing uncertainty about future profit growth. Profit maximization is a critical issue for NSSOL**
- **We believe NSSOL can increase profits by up to 19 billion yen (16.7 billion yen[1] after deducting the impact of price up FY25/3) annually, by implementing the following measures:**

Better profitability

— ① Review of pricing for Nippon Steel: Prices charged to Nippon Steel are set "so that the gross margin rate is consistent with the company-wide average." NSSOL's projects with Nippon Steel should have a higher margin due to the lower cost for NSSOL of providing services and the high switching costs for Nippon Steel

— ② Review of Pricing for Other Customers: NSSOL should seek additional price increases of approximately +5% for long-standing large customers

— ③ Reallocation of Resources Away From Low Return Projects: NSSOL should re-assign sales and engineering personnel tasked with low-profit small customers in the Industrial Business System Solutions Units to other more profitable areas

— ④ Reduction in Outsourcing Costs for Subcontractors: NSSOL can achieve 5% - 10% price reductions from its subcontractors through negotiation and benchmarking against competitors

— ⑤ Increase in Offshore Share of Outsourcing: NSSOL should increase subcontracting to offshore contractors to the same level as its competitors. The offshoring should be focused on Southeast Asia; NSSOL should acquire bridge SEs, local supervisory SEs and other human resources to implement this goal

— ⑥ Reduction in Headcount and Personnel Expenses: NSSOL should reduce general management staff to competitive best-practice levels

— ⑦ Reduction of Other Costs: NSSOL should conduct an in-depth review of procurement costs and practices, including headquarters rental costs

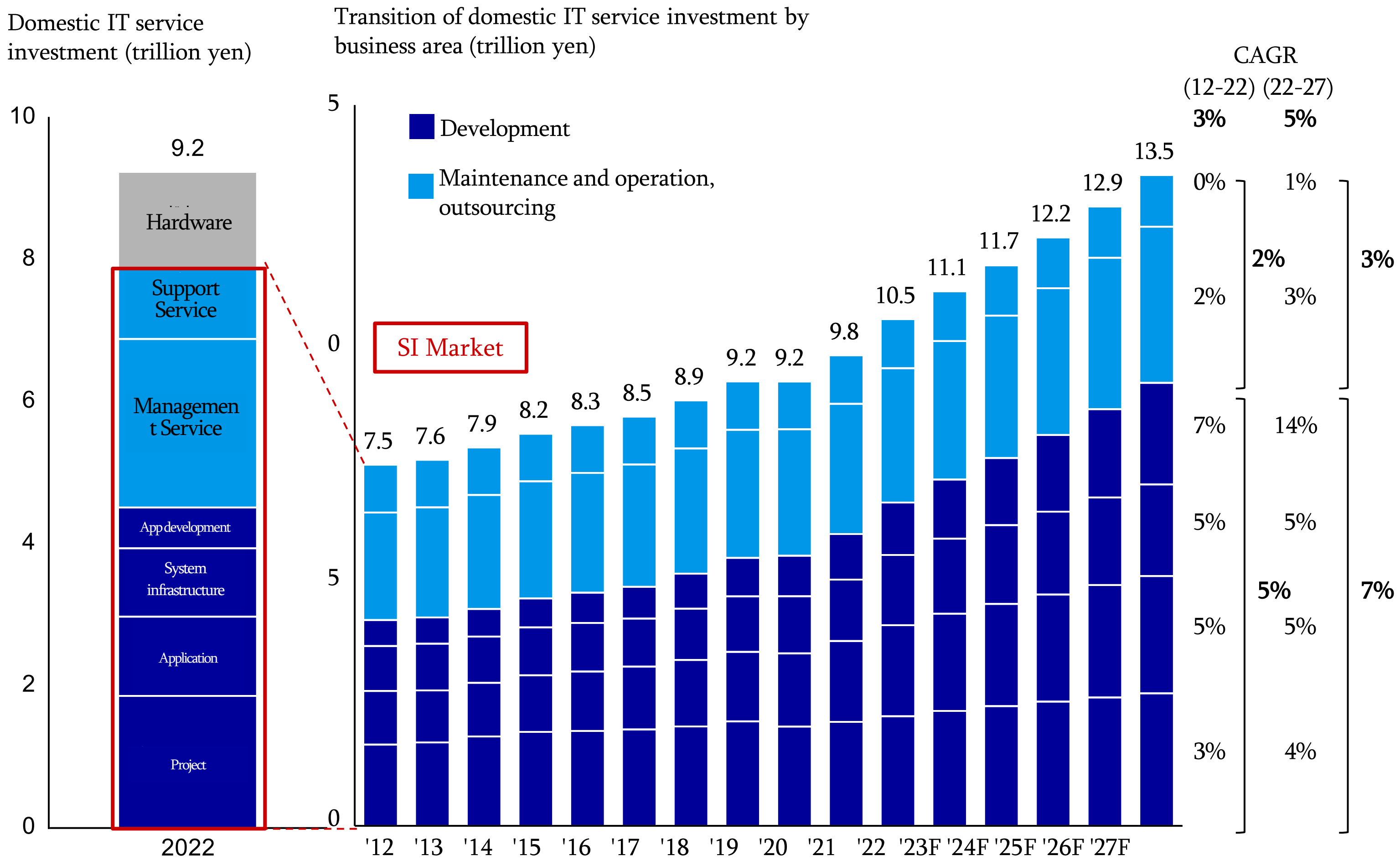
Increased Revenue

— ⑧ Development of Domestic Steel Manufacturer Customers: NSSOL should develop business centered on projects to renew the core systems of domestic steel manufacturers such as JFE and Kobe Steel

— ⑨ Development of Overseas Steel Manufacturer Customers: NSSOL should develop business centered on projects to renew the core systems of Indian, Korean, European and American manufacturers

Note: [1] The effects of price increase measures already undertaken by the company have been deducted;"¥1.7 billion gross profit improvement from value-added OP and others through FY25/3 Q3" ×"¥3.8 billion gross profit improvement for FY25/3 (excluding bonus reserve differences)" ÷"¥3.1 billion gross profit improvement through FY25/3 Q3" =Gross profit improvement of ¥2.1 billion attributable to annual price increase impact has been deducted.

The domestic SI market is forecasted to continue to grow at 5% per annum



Major drivers of future growth in the domestic SI market

Shifting to the Cloud with a focus on ERP

ICT players are accelerating the shift to cloud computing

Automation of business processes

Process automation is under way to strengthen global competitiveness

Expansion of data-driven business

Data is helping users expand their own businesses

However, rising personnel costs and changes in the external environment and industry structure are creating uncertainty about future profit growth

1 Rising personnel expenses

Acquisition and development of human resources to support the growing area of modernization

- There has been a persistent labor shortage in the domestic market over the past decade, with **the supply for engineers being particularly tight**
- Amid intensifying competition for talent, **human resource costs have increased and are expected to continue rising in the future**

2 Changes in the external environment and industry structure

Changes in the external environment and industry structure surrounding the SI industry

- IT investment is shifting towards “aggressive IT” aimed at strengthening products and services or transforming business models; **in-house execution of SI functions** is progressing
- Major players that traditionally focused on upstream processes (e.g., Accenture) are now expanding into midstream and downstream areas
- Agile development systems leveraging open-source software (OSS) and cloud services are expanding, with growth drivers transitioning from conventional SI to modernization
- Roles expected of SIs are shifting towards the capability to make specialized proposals and provide solutions. For SIs, gaining an advantage in new business areas is becoming increasingly important

Now is a critical time for NSSOL to address its profitability

There are several measures management can implement to improve profitability and increase revenue

Measures to Improve Profitability

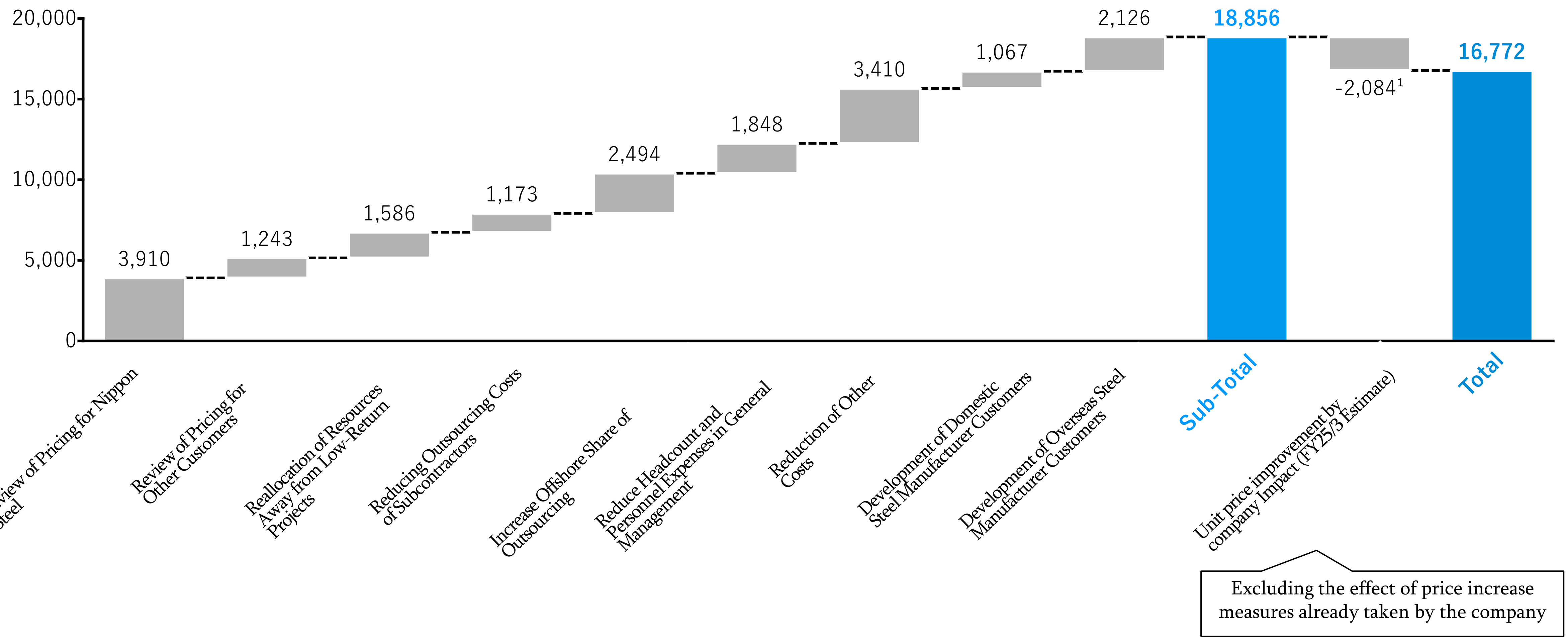
1. Review of Pricing for Nippon Steel
2. Review of Pricing for Other Customers
3. Reallocation of Resources Away from Low-Return Projects
4. Reduction in Outsourcing Costs for Subcontractors
5. Increase in Offshore Share of Outsourcing
6. Reduction in Headcount and Personnel Expenses
7. Reduction of Other Costs

Measures to Increase Revenue

8. Development of Domestic Steel Manufacturer Customers
9. Development of Overseas Steel Manufacturer Customers

By implementing these measures, we believe NSSOL can increase its profits by approximately 19 billion yen (16.7 billion yen after deducting the impact of price up FY25/3)

Profit improvement effects of each measure (M JPY)



Note: [1] "Gross profit improvement in value-added OP and others until 3QFY25/3: 1.7 billion yen" x "Gross profit improvement in FY25/3 (excluding bonus provision): 3.8 billion yen" / "Gross profit improvement until 3QFY25/3: 3.1 billion yen" = annual impact of price increase Gross profit improvement of 2.1 billion yen in FY25/3

1 Review of Pricing for Nippon Steel | Profit margins for ongoing projects with long-standing customers tend to be high

Projects with high profit margins in general

Projects easily differentiated by SIs based on business knowledge and project experience

- Long-standing customers
- Development projects with previous experience, additional development and maintenance of the systems developed by the SI itself

Customers' price elasticity is low (i.e., less pressure to cut prices)

- Limited price competition with competing SIs
- Common understanding between the customer and the SI about the quality of deliverables

Lower costs relative to sales

- Low sales cost
- Limited man-hours and costs for gaining customers' understanding of business and other preparation of projects
- Easy to estimate the work period and man-hours at the time of project design

Projects with low profit margins in general

Projects that are difficult for SIs to differentiate based on business knowledge and project experience

- Short-term or new customers
- Newly ordered development projects

Customers' price elasticity is high (i.e., more pressure to cut prices)

- Price competition with competing SIs is likely to occur
- In some cases, high uncertainty about the quality of deliverables for customers

Higher costs relative to sales

- High sales cost
- It takes man-hours and costs to gain customers' understanding on business (prior preparation of data, etc.)
- Difficult to estimate the work period and man-hours at the time of project design

"The longer you deal with a particular customer, the better you understand the customer's situation and, as a result, the easier it is for the SI to control costs."

Undisclosed

"With long-standing customers, at which our staff permanently stay, we can catch emerging needs and acquire deals at a minimal operating cost."

Undisclosed

"With new customers or those with a short transaction history, issues are more likely to occur, leading to higher costs. Additionally, since we are constantly compared to other SIs, prices tend to be lower."

Undisclosed

1 Review of Pricing for Nippon Steel | NSSOL's projects with Nippon Steel are projects that generally carry high margins in the SI industry

Requirements for projects with high profit margins

Customers' price elasticity is low (i.e., less pressure to cut prices)	Limited price competition with competing SIs
	Common understanding among customers and SIs about the quality of deliverables
Lower costs relative to sales	Low sales cost
	Limited man-hours and costs for gaining customers' understanding on business and other preparation of projects
	Easy to estimate the work period and man-hours at the time of project design

Characteristics of projects with the parent company for NSSOL

- *"NSSOL manages all the core systems of the parent company, so there will be no competition with other SIs"*

  Undisclosed

- *"Originally, we were the parent company's IT department, so we naturally understand each other's needs and expectations well. As a result, issues like discrepancies in the quality or understanding of deliverables that often arise with external customers rarely occur.*

  Undisclosed

- *"We don't have to make sales pitches to the parent company, which we do to external customers. While we have employees seconded to the parent company's IT division, even taking that into account, the sales effort required is about one-quarter of what is needed for an average external client."*

  Undisclosed

- *"Generally, with customers with short transaction histories, it takes us certain amount of time for initial understanding of their existing systems and data structures, but with the parent company, we are already familiar with their systems."*

  Undisclosed

- *"The volume of orders and development details are determined according to the parent company's IT investment plan, which allows us to grasp the timeline and required man-hours early on. Also, the process leading up to the order is clear through seconded employees, minimizing the risk of estimation errors."*

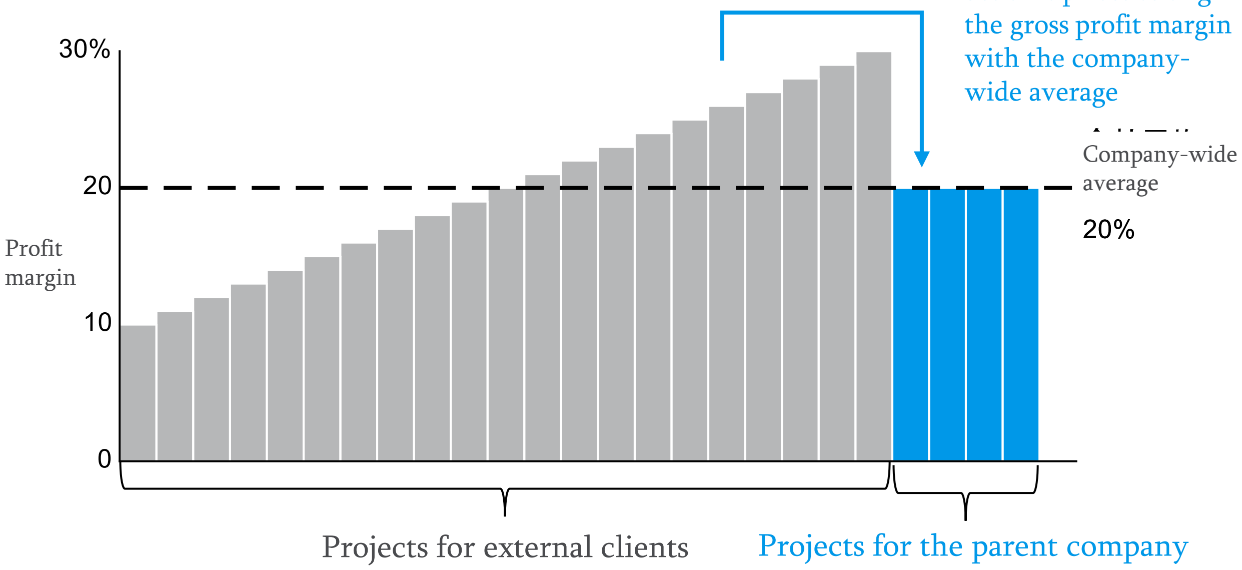
  Undisclosed

Source: Interviews with market participants

1 Review of Pricing for Nippon Steel | Pricing for Nippon Steel is set "to align with the company-wide average gross profit margin," resulting in the Company's added value not being fairly recognized

The unit price for projects with Nippon Steel is set "to align with the company-wide average gross profit margin"

Visualization of "company-wide average gross profit margin"



"The unit prices for projects with Nippon Steel are at the same level as the company-wide average. I do not think we accept their orders at a lower price."

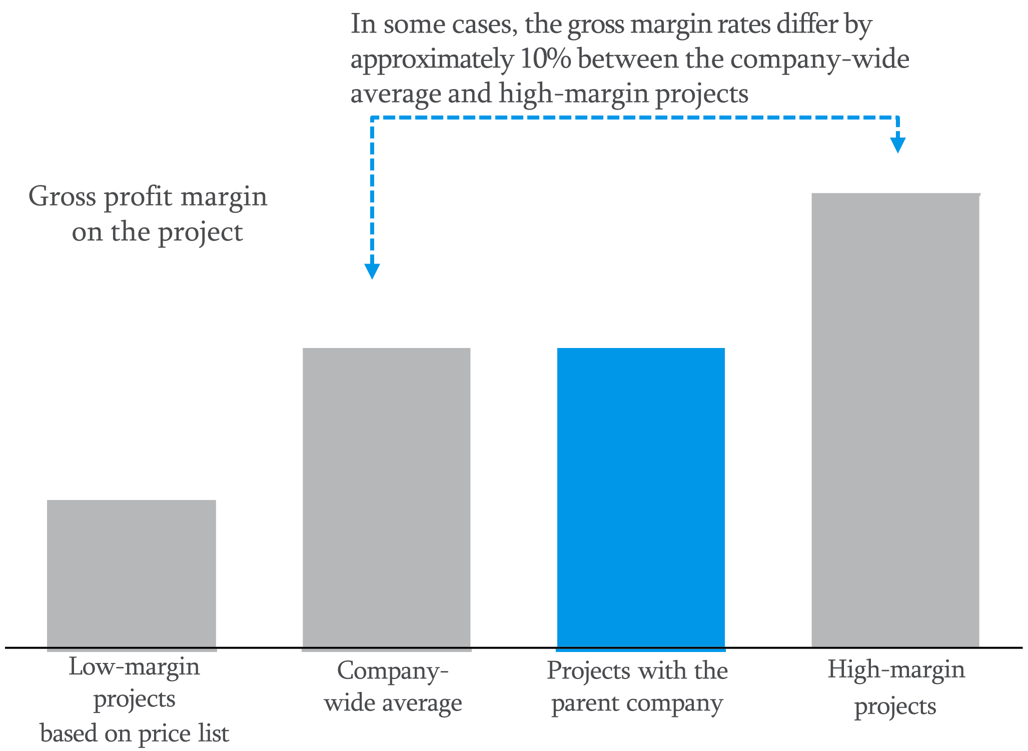
Undisclosed

"The basic approach is to adjust the gross profit margin for projects with the parent company to align with the company-wide average."

Undisclosed

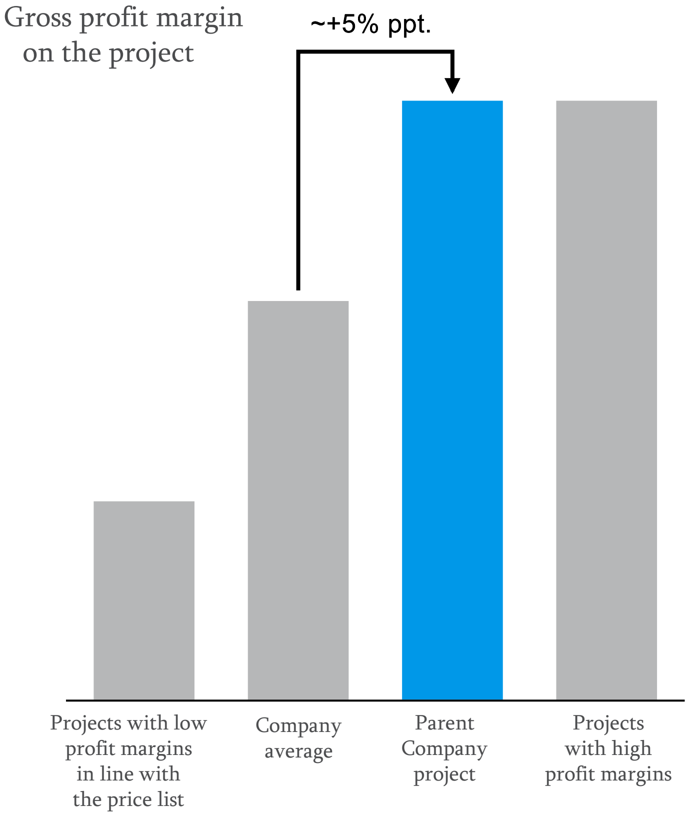
As a result, the gross profit margin of projects with Nippon Steel is lower than the "desired rate"

An example of a project for updating a company-wide ERP package (such as SAP and Oracle) for a customer with approximately 500 billion yen sales, with one-year work period, and with a team consisting of one project manager (PM) and five project leaders (PJ leaders)



1 Review of Pricing for Nippon Steel | For other SIs affiliated with steel manufacturers, the parent company is one of the most profitable accounts

Parent company projects achieve the highest level of gross profit margin in the company



Comments from competitors about profitability of parent company projects (example of JFE Systems)

JFE JFE システムズ

"Projects for the parent company (JFE Steel) are the most profitable among development projects. They (projects with the parent company) are about ~5% higher in gross profit margin and about 10% higher in operating profit rate than the company-wide average."

"For parent company projects, the gross profit margin are around the same level as those of the most profitable external customers."

"JFE Systems dispatches personnel to the IT division of JFE Steel and gains information such as JFE Steel's annual development plans at the beginning of the fiscal year, making it easier for us to develop an annual work plan. As a result, there is almost no need for unexpected additional man-hours."

"Although there are price negotiations with the parent company every year, they almost always accept the profit levels we request."

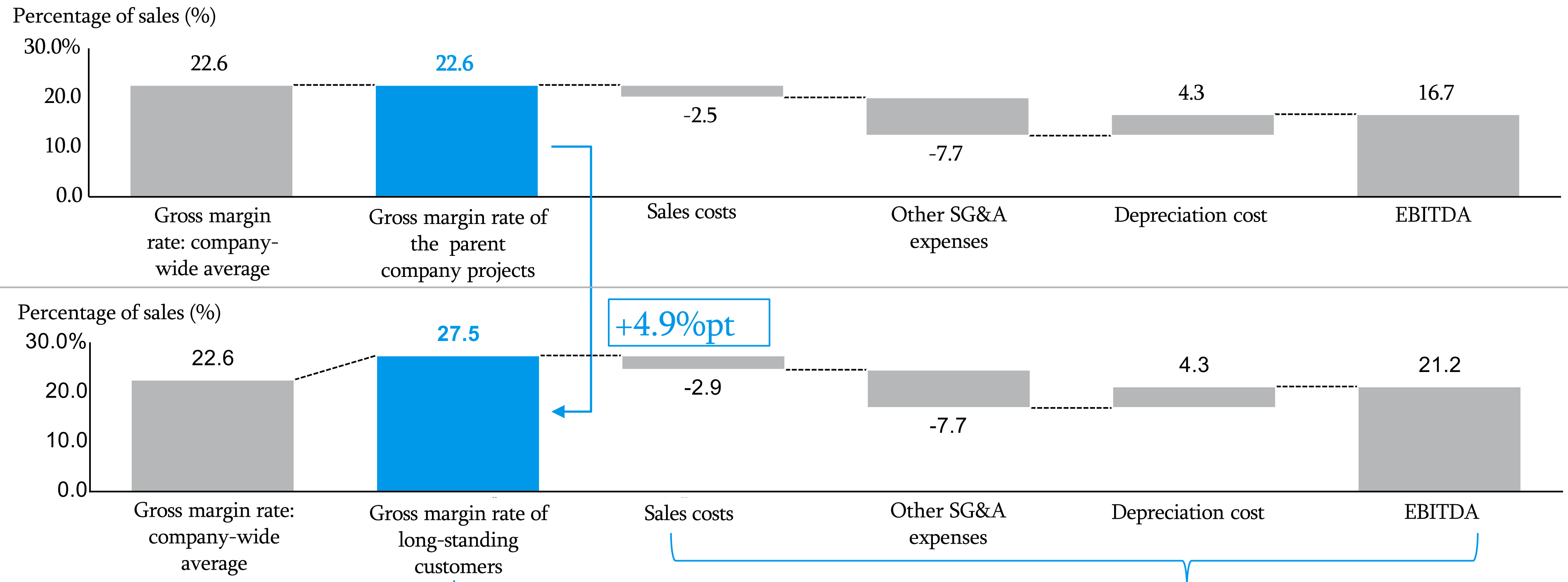
Source: interviews with market participants

1 Review of Pricing for Nippon Steel | There is an opportunity to increase gross margins of projects for Nippon Steel by approximately 5% by increasing the unit price to a level where added value is properly recognized and raising the gross profit to the level of long-term customers

An example of a project for updating a company-wide ERP package (such as SAP and Oracle) for a customer with approximately 500 billion yen sales, with one-year work period and with a team consisting of one project manager (PM) and five project leaders (PJ leaders)

Profitability of parent company projects

Ongoing projects with long-standing customers other than the parent company



- The gross profit margin for projects with the parent company is set to align with the company-wide average, including general customers
- On the other hand, for long-standing customers, the average gross profit margin is about 27.5%. There is an approximately 5% difference on the basis of gross margin

- Parent company projects benefit from lower sales costs compared to general customers, providing a cost advantage
- However, even when accounting for the difference in sales costs, the operating profit for the parent company's projects remains lower compared to ongoing projects with similarly long-standing customers

There is potential for improvement of approximately 5%, equivalent to 3.9-6.1 billion yen based on gross margin rate/EBITDA

Source: Company IR, interviews with market participants

1 Review of Pricing for Nippon Steel | Even if NSSOL increases prices by 5%, it is highly unlikely that Nippon Steel will shift to other SIs

Reasons why we do not believe Nippon Steel would shift to other SIs, even if NSSOL increased prices by 5%

NSSOL has a deep understanding and knowledge of Nippon Steel's **existing business processes and systems**

"Most of the sales from the parent company are ***additional development and maintenance of business computers that were developed by NSSOL, as well as DX solutions that requires a deep understanding of Nippon Steel Corporation's business processes****. It is not easy for other companies to get involved in these business, and* ***the parent company will continue to use NSSOL*** *as long as NSSOL has enough manpower."*

Undisclosed

"Furthermore, in order to change vendors of the core system for steel plants, it is necessary to accurately transfer all ***important data and settings that are directly related to the production of steel such as the composition of ingredients and the length of time of refining which are set in business computers****. If these are mistakenly transferred,* ***there will be a great risk, so it is not realistic to change vendors taking into such risk****."*

Undisclosed

Nippon Steel would incur high **switching costs**

*"****Even Nippon Steel Corporation's information department employees do not fully understand*** *the systems of steel plants, and it is necessary to understand these systems when changing SI(s) to other ones.* ***It's hard*** *to spend time and money* ***to change the SI(s)****."*

Undisclosed

"Changing the systems of steel plants to external vendors ***requires a long period of downtime and a huge investment. They would be willing to accept a cost increase of about 5%*** *if they do not have to spend these costs."*

Undisclosed

Source: Interviews with market participants

2 Review of Pricing for Other Customers | NSSOL's pricing is lower than that of players that provide end-to-end services, but at the same level or higher than those of competitors that focus on design, development, maintenance and operations

Differences between each player's pricing under the same conditions (based on interviews with market participants)

about +10%

IBM
accenture
NRI
NEC

Players that provide end-to-end services starting from IT consulting

about +0~5%

NS Solutions

BIPROGY
CTC
TIS
SCSK

Players that focus on design, development, maintenance and operation

The pricing of companies that provide services starting from IT consulting, which is an upstream process, tends to be higher compared to projects with the same conditions handled by other companies

*" **The pricing of companies** like Accenture and NRI, **which cover services starting from consulting, which is an upstream process, seem to be generally high.** These unit costs are about 10% higher than those of SIs (BIPROGY, NSSOL, TIS and SCSK) about the same size of CTC."*

Undisclosed

*" **The upper processes have more value added** than the lower processes, so IBM and Accenture, which have many capabilities to handle the upper processes, can set high unit costs."*

Undisclosed

NSSOL's unit costs are at the same level or up to 5% higher than those of competitive SIs that focus on design, development, maintenance and operation

*"**In my image,** NSSOL is **a runner-up** to a high value-added player like Accenture. NSSOL's unit costs are up to about 5% higher than those of TIS and CTC."*

Undisclosed

*" Compared to CTC and TIS, **NSSOL's unit costs are high and up to about 5% higher** than that of CTC or TIS."*

Undisclosed

Source: Interviews with market participants

2 Review of Pricing for Other Customers | Customers are likely to accept a price increase of 5% given their high satisfaction with NSSOL

Customers **highly value** NSSOL's **service level and cost effectiveness**

*"NSSOL's prices are lower than those of NRI, Accenture and NTT DATA, but higher than those of other SIs. However, **increasing prices by approximately 5% would be acceptable since NSSOL's service quality is consistently good.**"*

Undisclosed

*"NSSOL is strong in market-based systems that require specialized knowledge specific to financial institutions and is familiar with our internal environment through long-term presence. Therefore, **the impact on trading volumes (due to increased prices) will be small.**"*

Undisclosed

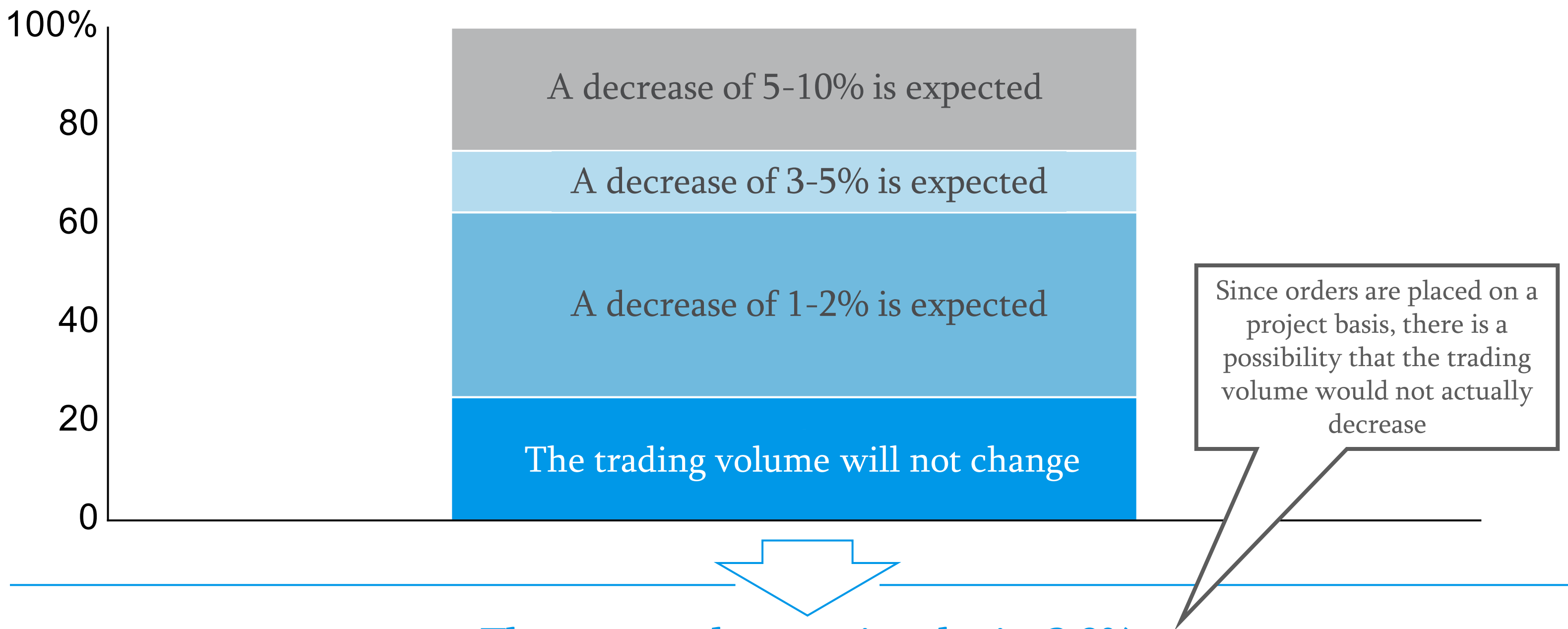
*"I feel that **NSSOL's prices are reasonable**. Even if the prices are raised, I think that the trading volume would decrease by an amount that is less than the increase of the costs or at most, the total cost could be maintained."*

Undisclosed

Increasing prices by 5% would be **positive for NSSOL despite the decrease in contracts**

Interviews with large corporate customers for whom NSSOL has developed major systems:
If NSSOL increases costs by 5% while other SIs keep their costs stable, how much do you think the transactions would change?

Expected decrease in transactions (%, selected percentage)



The average decrease in sales is -2.9%
It is expected that net sales will increase by approximately +2.1%

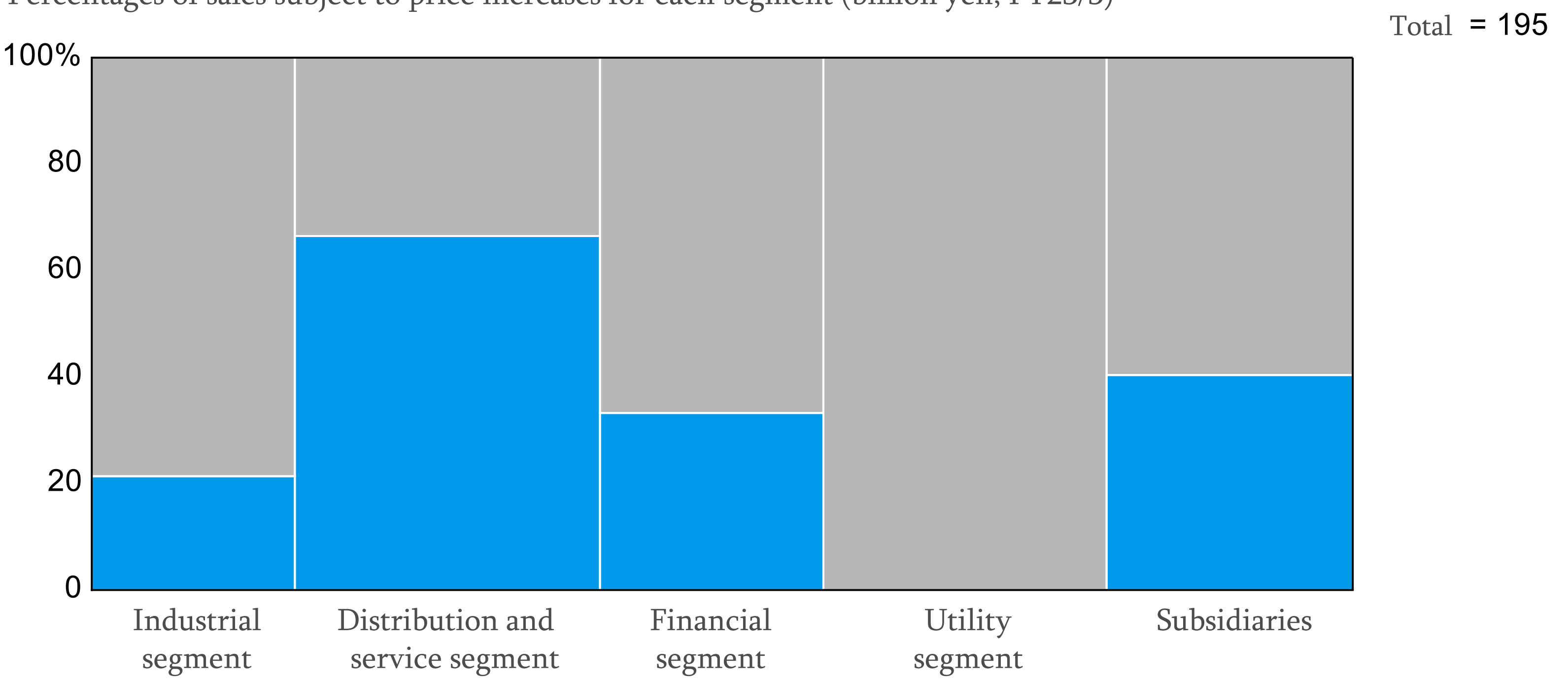
Source: Interviews with market participants (N=8)

2 Review of Pricing for Other Customers | If NSSOL increases prices for "major corporate customers for which it has developed major systems" by 5% , we expect that EBITDA will increase by approximately 1 billion yen

Sales from each segment that could be subject to price increases

Sales from **"major corporate customers for whom it has developed major systems"** that are subject to price increases

Percentages of sales subject to price increases for each segment (billion yen, FY23/3)



We expect EBITDA improvement of approximately 1.2 billion yen in our "base case" scenario (5% price increase with a 2.9% decrease in transaction volume) and up to ~3.2 billion yen in our "upside case" scenario (5% price increase with a 0.0% decrease in transaction volume)

Identify opportunities for price increases based on each customer segment's characteristics

Set the scope of the review as sales of SI business to external customers

- IT Infrastructure is excluded as it is not a SI business
- Unit costs for Nippon Steel Corporation are excluded as these costs have been already reviewed

- Identify sales composition ratio of **"major corporate customers for which NSSOL has developed major systems"** for each segment
  - Industrial segment: This sector has many small-scale customers and market share (～23%) is lower than other segments
  - Distribution and service segment: NSSOL has a large share (～23%) of each customers
  - Financial segment: NSSOL has a certain transaction share (～35%) in the business of some megabanks and regional banks
  - Utility segment: Bidding is often done, so cost reductions are not negotiable
  - Subsidiaries: Apply the average values of industry, distribution & services, and finance (~43%).

Source: Company IR; interviews with market participants

③ Reallocation of Resources Away from Low-Return Projects | Gross margin rate for projects in Industrial Business System Solutions Units (manufacturing) is lower than that of other segments

Gross margin rate for projects in Industrial Business System Solutions Units (for manufacturing) is low

*"The low gross profit margin of the manufacturing industry itself means that **projects for the manufacturing industry tend to have low gross margin rates**"*

Undisclosed

*"The **gross profit margin** of Industrial Business System Solutions Units is **lower by around 7% compared to the total average**"*

Undisclosed

*"Projects for customers in the manufacturing industry are difficult to scale out or sell as a package, and **tend to be costly because they are made to order**"*

Undisclosed

*"Customers in the manufacturing industry tend to have low gross profit margin, so we **tend to offer lower project unit prices** compared to those for other industries"*

Undisclosed

Source: Interviews with market participants, third-party research organization

3 Reallocation of Resources Away from Low-Return Projects | By reassigning staff from Industrial Business System Solutions Units to other units with higher profitability, an improvement effect of around 1.6-3 billion yen on EBITDA basis can be expected

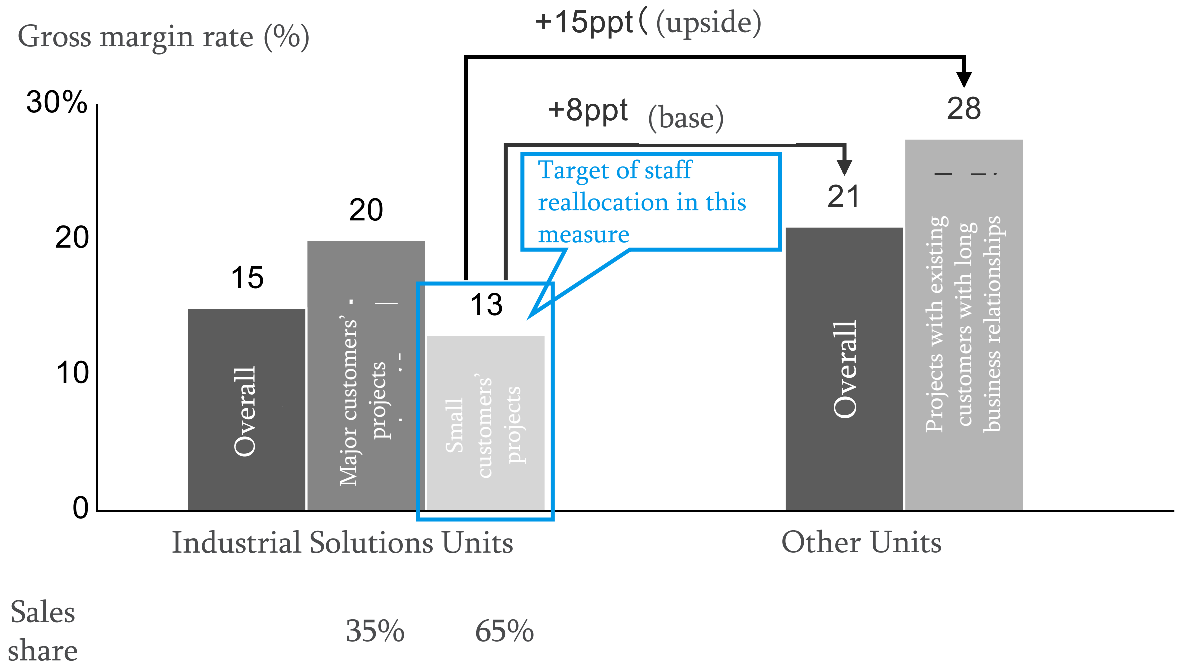
Approach to reallocation from Industrial Business System Solutions Units

- Within the Industrial Business System Solutions Unit, **reassign staff involved in small customer projects** (estimated to account for ~65% of the unit's sales) **to projects in other units with higher profitability**

- The estimated gross margin rate for small customer projects is ~13%; it is assumed that **in the base case**, it will reach **the average gross profit margin of other units** (~21%), and **in the upside case**, it will reach **the average gross profit margin of existing customers with long-term business relationships** (~28%)
  - In the Industrial Solutions segment, the estimated gross margin is approximately 20% for large-scale customer projects and around 13% for small-scale customer projects[1]
  - Since the segment consists of approximately 35% large-scale customers and 65% small-scale customers, the estimated overall gross margin for the segment is around 15%

Basis for calculation of financial impact

	Financial impact	=	Sales of Industrial Solutions Units	×	Ratio of low-profitability projects (small customers)	×	Improvement in gross profit margin
Base	~1.6 billion yen		~31 billion yen		~65%		~8ppt
Upside	~3.0 billion yen						~15ppt



Note:[1] Based on gross margin rate for the manufacturing business of competitors, where the majority of business is large customer projects, and interviews with a former NSSOL employee.
Source: Corporate IR; third-party research institution, interviews with market participants

4 Reduction in Outsourcing Costs of Subcontractors | NSSOL's approach to subcontractors is similar to that of its competitors

Status of the **cultivation and proper use of subcontractors** at NSSOL

Cultivating low-cost/high-quality **subcontracting partners**

- **Continuously cultivate new subcontracting partners** while keeping an eye on changes in development languages and project trends (as with industry best practices)
- A long list of subcontractors is created **and shared within the company** so that the most suitable subcontractor can be selected

Finding/investigating new subcontractors → **Organizing/sharing information** about subcontractors within the company

Finding/investigating new subcontractors

- Implement **networking activities**, including with subcontracting SIs of existing partner companies and partner companies of customers, etc.
- **Thoroughly investigate corporate and employee information** (credit information inquiries, profile research, etc. through LinkedIn) before placing orders with new subcontractors

Organizing/sharing information about subcontractors within the company

- Create a **long list of existing subcontractors** with organized information on costs and development details, etc.
- Share information throughout the company about good subcontractors used by other departments

*"NSSOL is very particular about quality, so I have the impression that they carefully cultivate and investigate subcontractors. In the company, there was a **list that organized information about the evaluation of subcontractors and the development details they can handle**, and information about subcontractors with a good reputation was shared across departments"*

Undisclosed

Differentiating subcontractors depending on development difficulty/project

- For simple development projects, **orders are placed with low-cost subcontractors**, as with competitors
- **Quality is ensured by differentiating subcontractors for different areas**, based on an understanding of the strengths and issues of each subcontractor

Differentiation of subcontractors at NSSOL

Project	Development details/ environment (example)	Difficulty	Tier of subcontractor
ERP development	Financial accounting, production control	High	High
	Finance, HR and labor	Low	Low
Other development (backend, business applications, etc.)	Linux environment	High	High
	Oracle, Microsoft environment	Low	Low

*"While using the list of subcontractors within the company, **we divided the subcontractors according to the subcontracting details and difficulty level**"*

Undisclosed

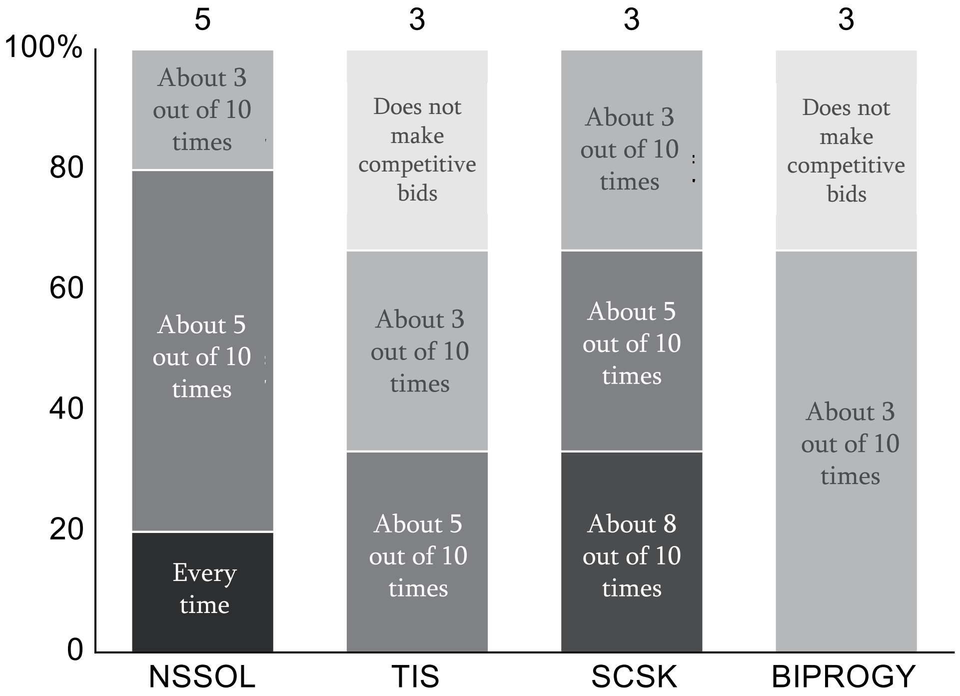
Source: Interviews with market participants

NSSOL also generally makes competitive bids in the same way as competitors, in terms of both frequency and number of companies targeted

Assuming a project to update the company-wide ERP package (SAP, Oracle, etc.) for customers with sales of around 500 billion yen
Assuming a project duration of 1 year and a team size of 1 PM + 5 project leaders

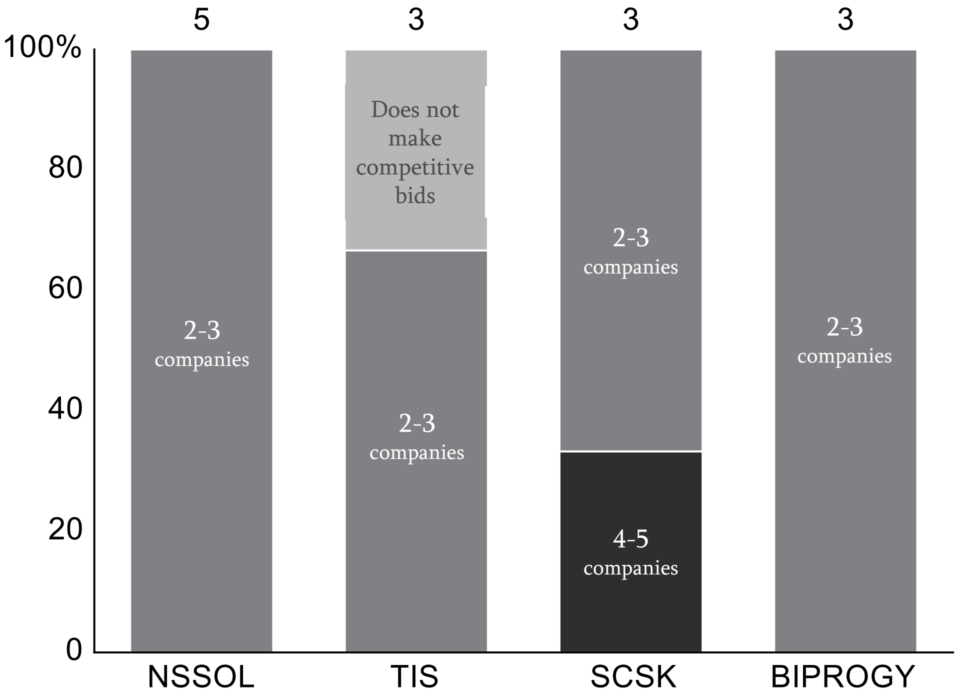
The frequency of competitive bids is generally the same as that of competitors

Frequency of making competitive bids when contemplating a subcontractor



The number of companies targeted for competitive bids is also at the same level as competitors

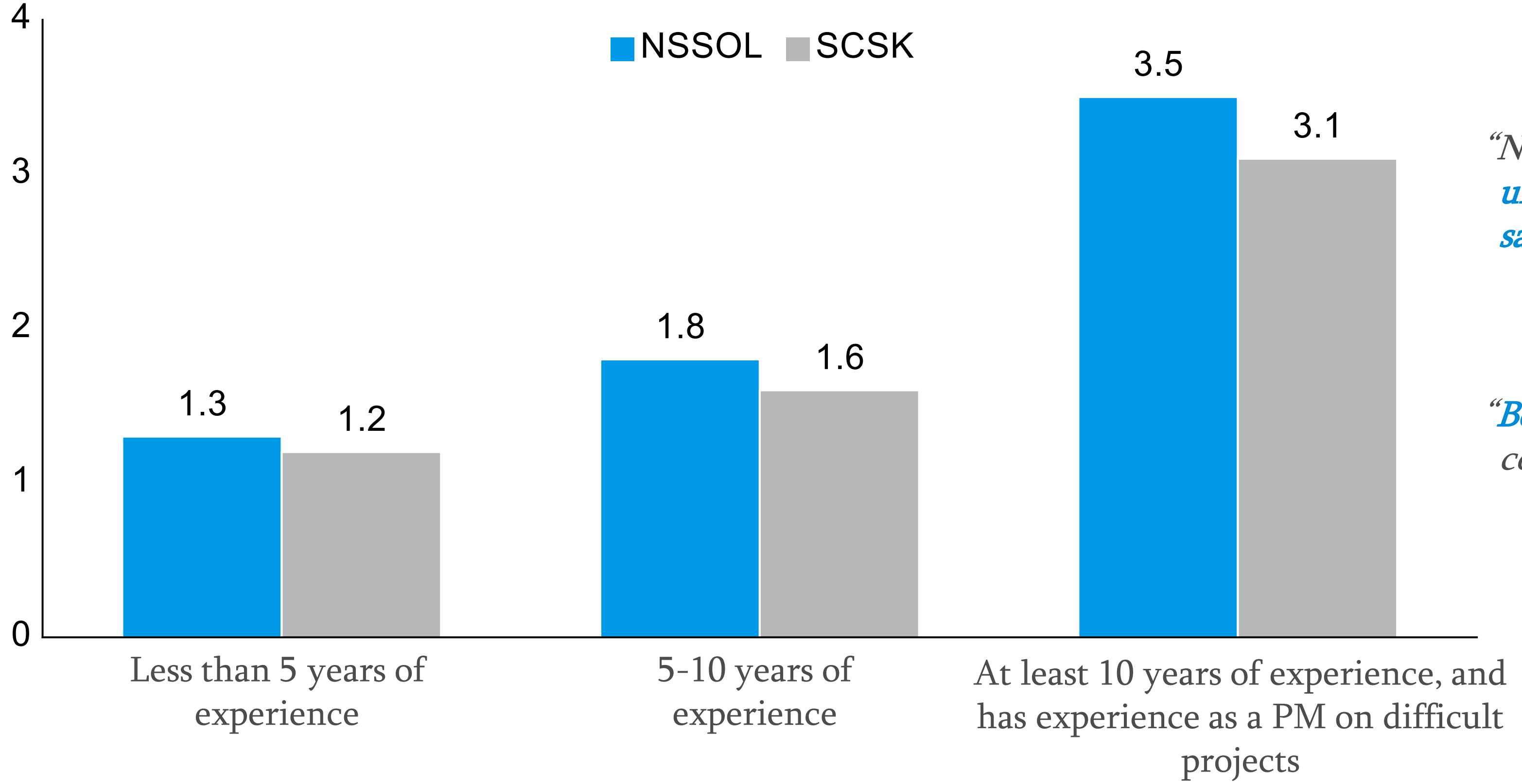
Number of companies targeted when making a competitive bid



Note: Based on interviews with former and current employees of each company (NSSOL: N=5, SCSK: N=3, TIS: N=3, BIPROGY: N=3)
Source: Interviews with market participants

Same subcontractor Comparison of outsourcing unit costs based on experience at Subcontractor A (NSSOL vs. SCSK)

Outsourcing unit costs for the same subcontractor (million yen/month)



*“NSSOL **has a large budget for outsourcing costs, and the unit cost can be higher than SCSK even if people with the same skill set are dispatched**”*

*“**Both NSSOL and SCSK negotiate costs**, but the final unit cost that is settled is higher for NSSOL”*

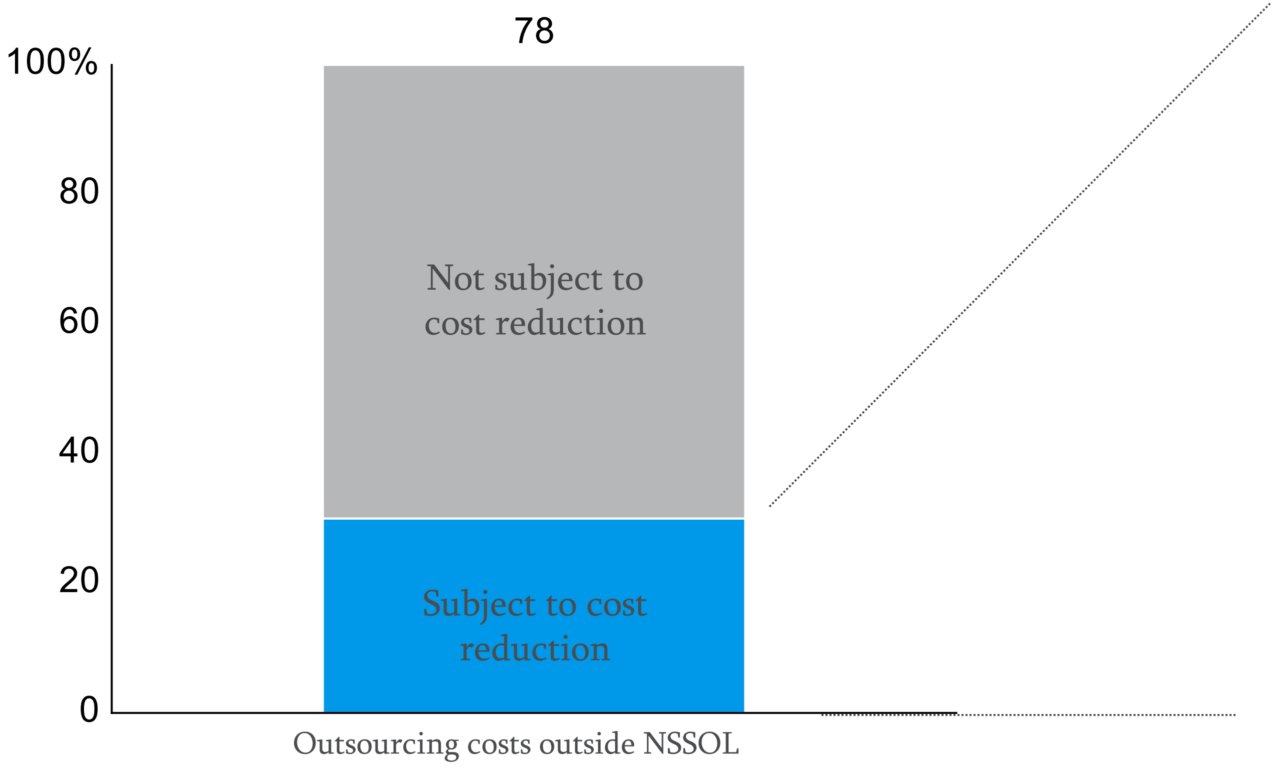
Undisclosed

Source: Interviews with market participants

4 Reduction in Outsourcing Costs of Subcontractors | Negotiations for lower prices with subcontractors can increase EBITDA by 1.2~2.3 billion yen

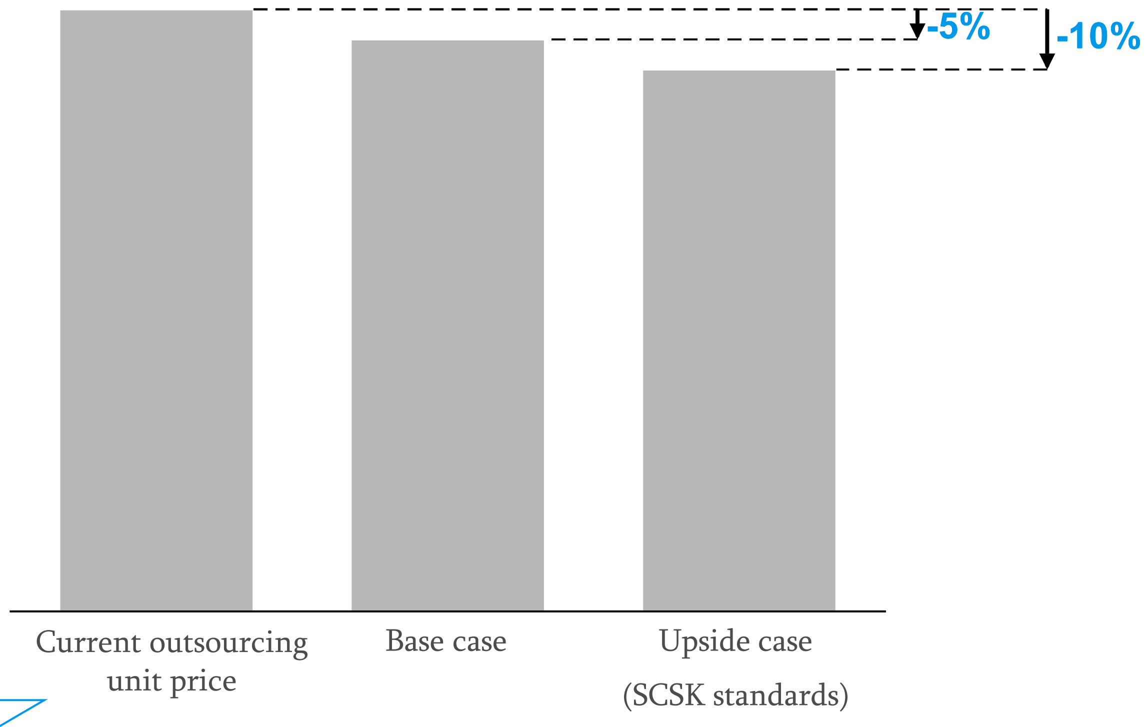
We believe NSSOL can reduce costs on about 30%[1] of its outsourcing contracts

Outsourcing costs outside NSSOL (billions of yen)



There is potential for improvement in the outsourcing unit price by approximately 5-10%

Range of improvement in outsourcing unit cost (visualization)



We believe these measures can increase EBITDA by 1.2 billion yen in our "base case" scenario (assuming 5% unit cost reduction) and up to 2.3 billion yen in our "upside case" scenario (assuming 10% unit cost reduction)

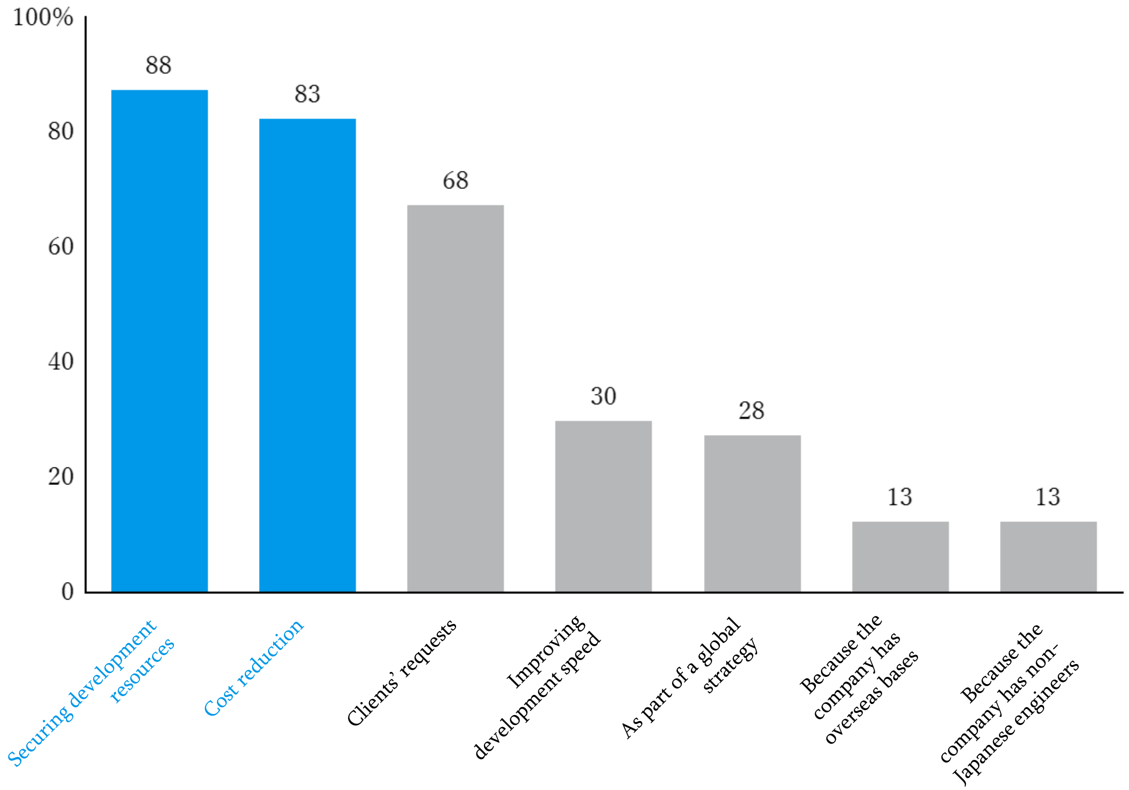
Note: [1] Unit price negotiations target subcontractors with a large business scale and a long-term relationship; Conducted a survey on the outsourcing cost ratio for outsourcing partners with a sales scale of over 1 billion yen and a business relationship with NSSOL of more than 5 years

5 Increase in Offshore Share of Outsourcing | Offshore outsourcing has significant cost benefits; costs are typically about 20-30% lower compared to domestic outsourcing

Generally, SIs use offshore outsourcing to reduce costs and secure development resources

Reasons for considering offshore development
(The Offshore Development White Paper survey of 100 companies considering or requesting offshore development in January 2023)

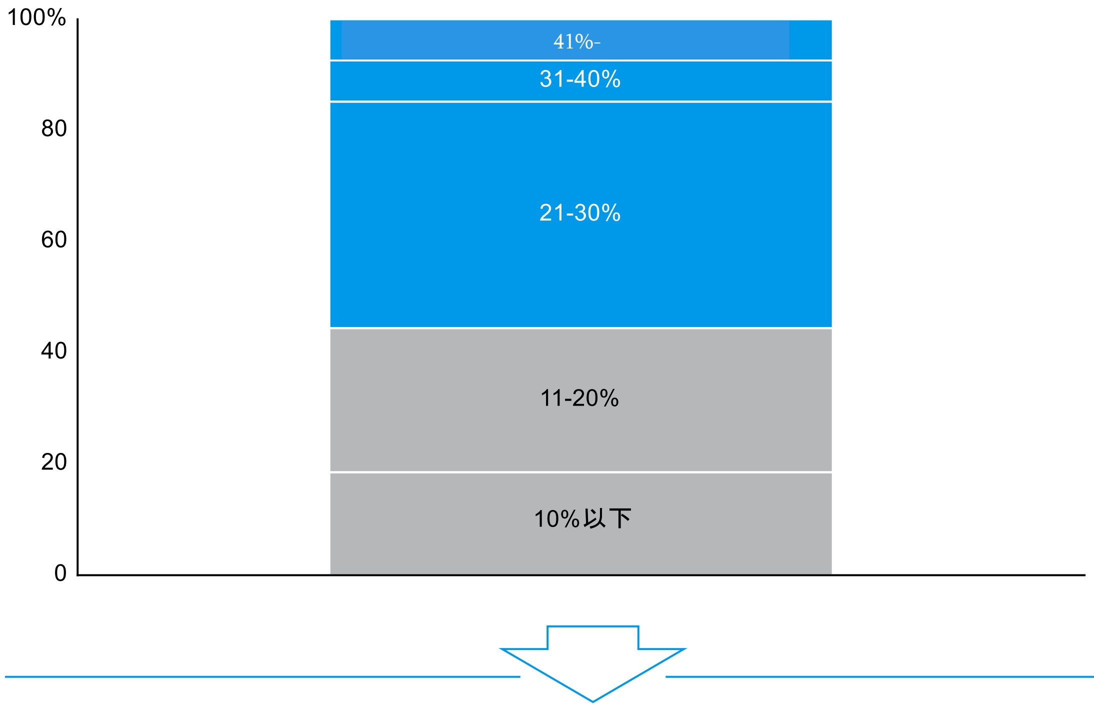
Reasons for considering offshore development (percentage of selection, %)



Compared to domestic outsourcing, offshore outsourcing can reduce costs by an average of 20~30%

Cost reduction effect of offshore development compared to domestic outsourcing
(The Offshore Development White Paper survey of 100 companies considering or requesting offshore development in January 2023)

Cost reduction effect of offshore development compared to domestic outsourcing



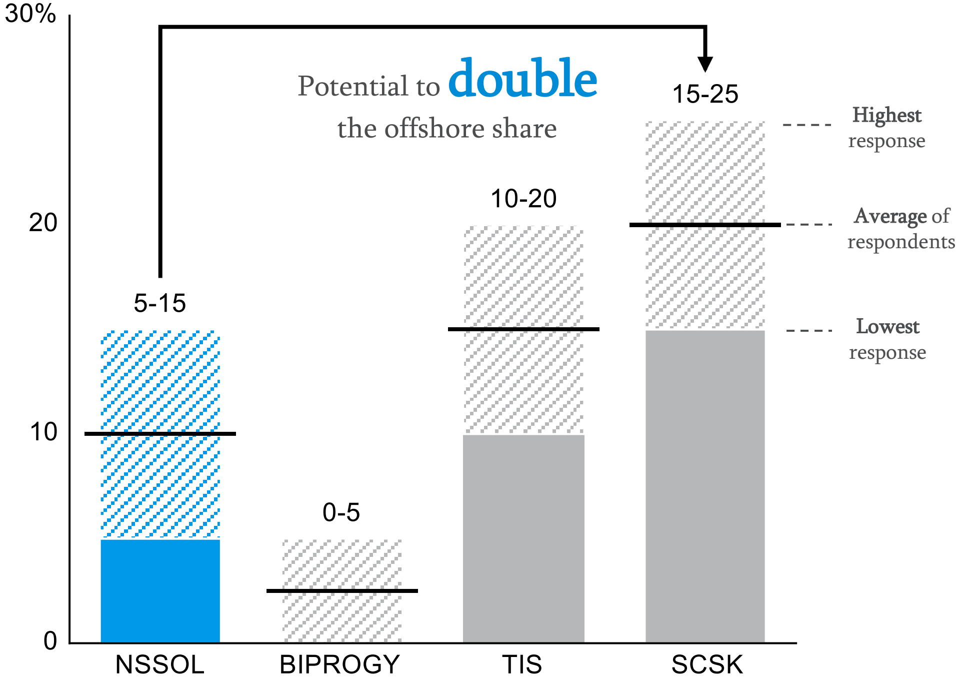
Average cost reduction of approximately 20-30%

Note: Offshore development includes service-related web system development, smartphone app development, operations-related web system development, AI development, core system development, etc.
Source: "Questionnaire Survey on Offshore Development," Offshore Development White Paper (2023 Edition)

5 Increase in Offshore Share of Outsourcing | NSSOL's utilization of offshore outsourcing is lower than that of its main competitors, and there is potential for NSSOL to double its offshore share

NSSOL's utilization of offshore outsourcing outside the group is lower than that of competitors

The level of utilization of offshore outsourcing to parties outside the group (%, based on number of people)



/ Interviews with former employees

There is potential for offshore expansion in the coding and testing process

	Design	Coding	Testing	Maintenance and operation
Comparison of NSSOL's offshore utilization to that of competitors[1]	Opportunities are limited, as are competitors	Comparable to or slightly lower than competitors	Comparable to or slightly lower than competitors	Comparable to competitors

*"I do not have the impression at all that NSSOL's offshore development is more advanced than that of its competitors. Even for the coding and testing processes, **it seems to be limited to the outsourcing of very simple tasks.**"*

Undisclosed

*"As for maintenance and operation, NSSOL **utilizes overseas bases as appropriate** for systems such as those that require 24-hour operation and monitoring."*

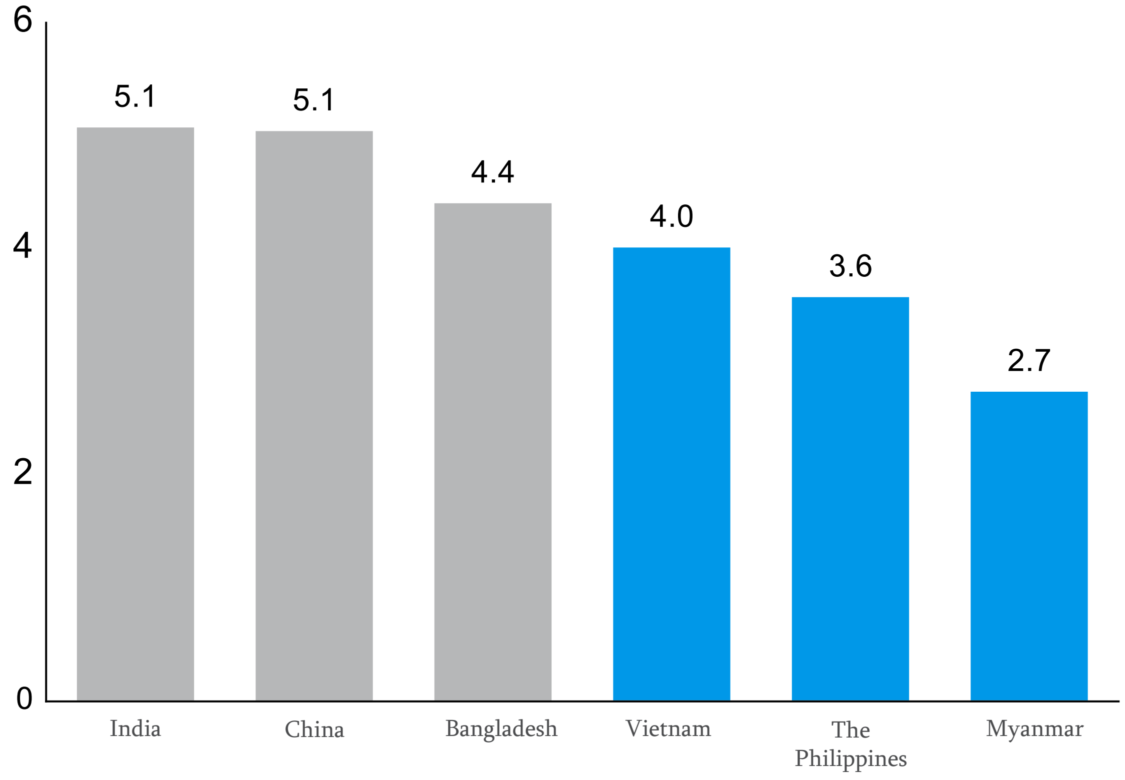
Undisclosed

Note: [1] SCSK, BIPROGY, and TIS are assumed to be the competitors
Source: Interviews with market participants

5 Increase in Offshore Share of Outsourcing | In addition, NSSOL lags behind others regarding its expansion into Southeast Asia, where there are significant cost benefits in offshore outsourcing

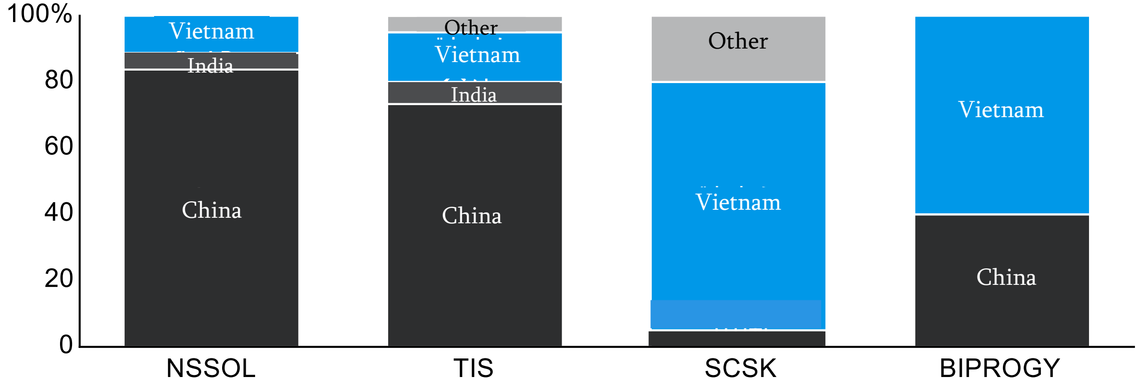
The cost per engineer is lower in Southeast Asia

Average monthly cost per engineer (2022, in million yen)



NSSOL lags behind others in its expansion into Southeast Asia, where there are significant cost benefits to offshore outsourcing

Share of each outsourced country in total outsourcing to offshore partners (%)

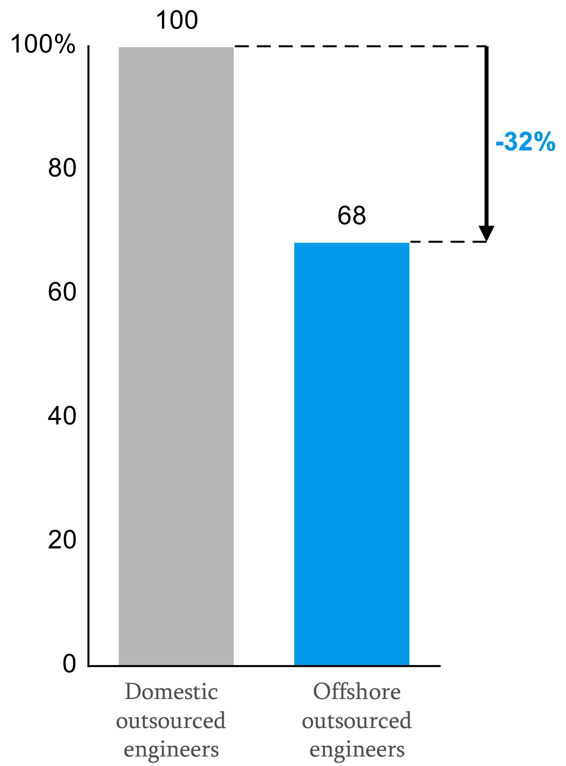


- NSSOL **expanded into China in the early 2000s** and has been working with local outsourcing partners
  - *"We have been doing business in China for a long time, and have a certain number of partner companies (a local subsidiary was established in 2002). **We also conduct personnel dispatch and exchange.**"*
  Undisclosed
- On the other hand, as other companies shift their outsourcing destinations to Southeast Asia due to rising engineering personnel costs and geopolitical risk, **NSSOL lags behind others in its expansion into Southeast Asia**
  - *"The latest offshore trend is Southeast Asia. In some cases, personnel costs can be higher if we outsource to China, and from the perspective of security risk, **offshore outsourcing to China is on the decline.**"*
  Undisclosed
  - *"In the past, NSSOL tried to expand its offshore outsourcing in Vietnam, but due to language barriers and cultural differences, **it was unable to manage the local staff and quality issues arose, resulting in the suspension of the expansion.**"*
  Undisclosed

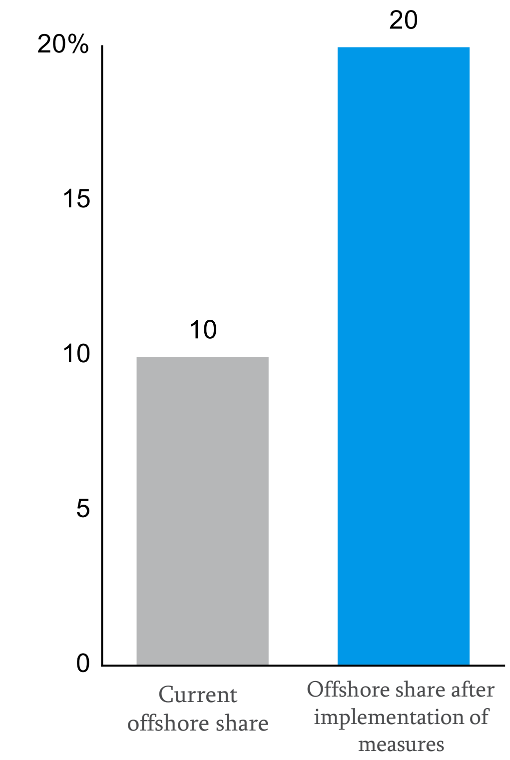
Source: "Questionnaire Survey on Offshore Development," Offshore Development White Paper (2023 Edition); interviews with market participants

5 Increase in Offshore Share of Outsourcing | The base case assumes raising the offshore share in outsourcing to the level of the best practices of its competitors, while the upside case assumes that projects currently outsourced to China and India will shift to Southeast Asia

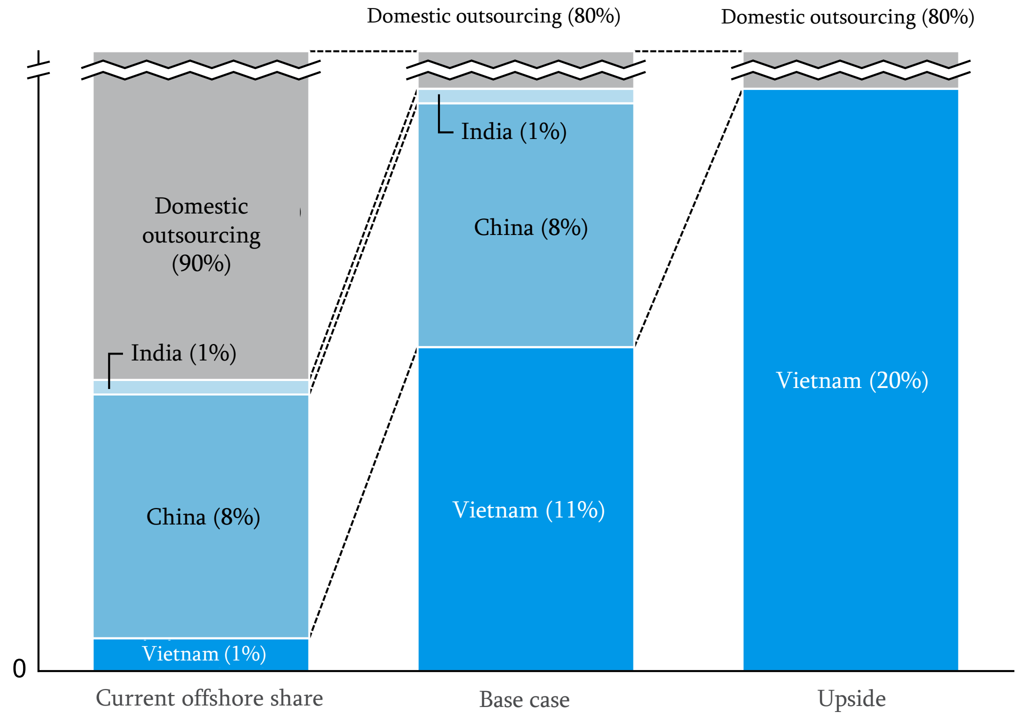
Offshore outsourced engineers are approximately ~32% cheaper than their Japanese counterparts on a per unit basis



We assume NSSOL will increase its offshore share in outsourcing to the level of SCSK



Our base case assumes that the increase in the offshore share will be covered by utilizing Southeast Asia, while the upside case assumes that outsourcing to China and India will also be shifted to Southeast Asia



We estimate that greater offshore outsourcing could increase NSSOL's EBITDA by 2.5-3.5 billion yen

Source: Interviews with market participants

6 Reduction in Headcount and Personnel Expenses | The identification of cost-saving opportunities will be carried out through two approaches, and the effectiveness of the measures will be calculated based on competitor benchmarks

	Used to calculate the effects of the measures **Approach 1 : Competitive benchmarking**		Used to verify the reasonableness of the calculation results on the left **Approach 2 : Internal benchmarking**	
	Base case	**Upside case**	**Comparison of departments**	**Comparison of subsidiaries**
Verification approach	For functions of NSSOL where the ratio of general management personnel to the total number of employees is higher than that of competitors, we assume that such ratio can be reduced to the **average level of competitors**	For functions of NSSOL where the ratio of general management personnel to the total number of employees is higher than that of competitors, we assume that such ratio can be reduced to the **level of the most efficient competitor**	Parent company: We assume that, across all business departments within NSSOL, the ratio of general management personnel to the total number of employees can be reduced to the level of **the business department within NSSOL with the lowest ratio**	Only subsidiaries: We assume that the ratio of general management personnel to the total number of employees can be reduced to the level of **the lowest ratio among the subsidiaries of NSSOL** The estimated reduction rate based on a comparison of five major regional subsidiaries is applied to other subsidiaries
Number of personnel covered by the benchmark	Number of general management personnel on a consolidated basis **1,012 people**		Number of the parent company's general management personnel with functional roles by department **269 people**	Number of the subsidiaries' general management personnel **323 people**

6 Reduction in Headcount and Personnel Expenses | Potential for reduction of general management positions is generally the same for all benchmarks (approximately 20-27%)

Current general management headcount

Consolidated General management: 1,012

Parent company General management: 689

By department (269) | Company-wide (420)

Subsidiaries General management: 323

	Planning/ Management	HR/General Affairs	IT	Finance	Legal	Other
Parent company	(326)	(147)	(36)	(40)	(35)	(105)
Subsidiaries	(28)	(115)	(41)	(58)	(26)	(55)

Room for optimization of headcount

Approach 1: Competitive benchmarking

Base (average of competitors)

-208 Reduction rate compared to consolidated general management headcount: **-21%**

Upside (most efficient competitors)

-271 Reduction rate compared to consolidated general management headcount: **-27%**

	Parent: Planning/ Management	Parent: HR/General Affairs	Parent: IT	Parent: Finance	Parent: Legal	Parent: Other	Subs.: Planning/ Management	Subs.: HR/General Affairs	Subs.: IT	Subs.: Finance	Subs.: Legal	Subs.: Other
Base (average of competitors)	-0	-40	-15	-15	-11	-30	-3	-31	-17	-22	-8	-16
Upside (most efficient competitors)	-0	-68	-15	-17	-16	-30	-3	-53	-17	-24	-12	-16

Approach 2: Internal benchmarking

Comparison of departments

Parent company, by department: **-64** Reduction rate compared to general management headcount of the relevant department: **-24%**

Parent company, company-wide: NA

Subsidiaries: NA

Comparison of subsidiaries

Parent company: NA

Subsidiaries: **-52** Reduction rate compared to general management headcount at subsidiaries: **-16%**

Planning/ Management	HR/General Affairs	IT	Finance	Legal	Other
-3	-17	-6	-11	-0	-15

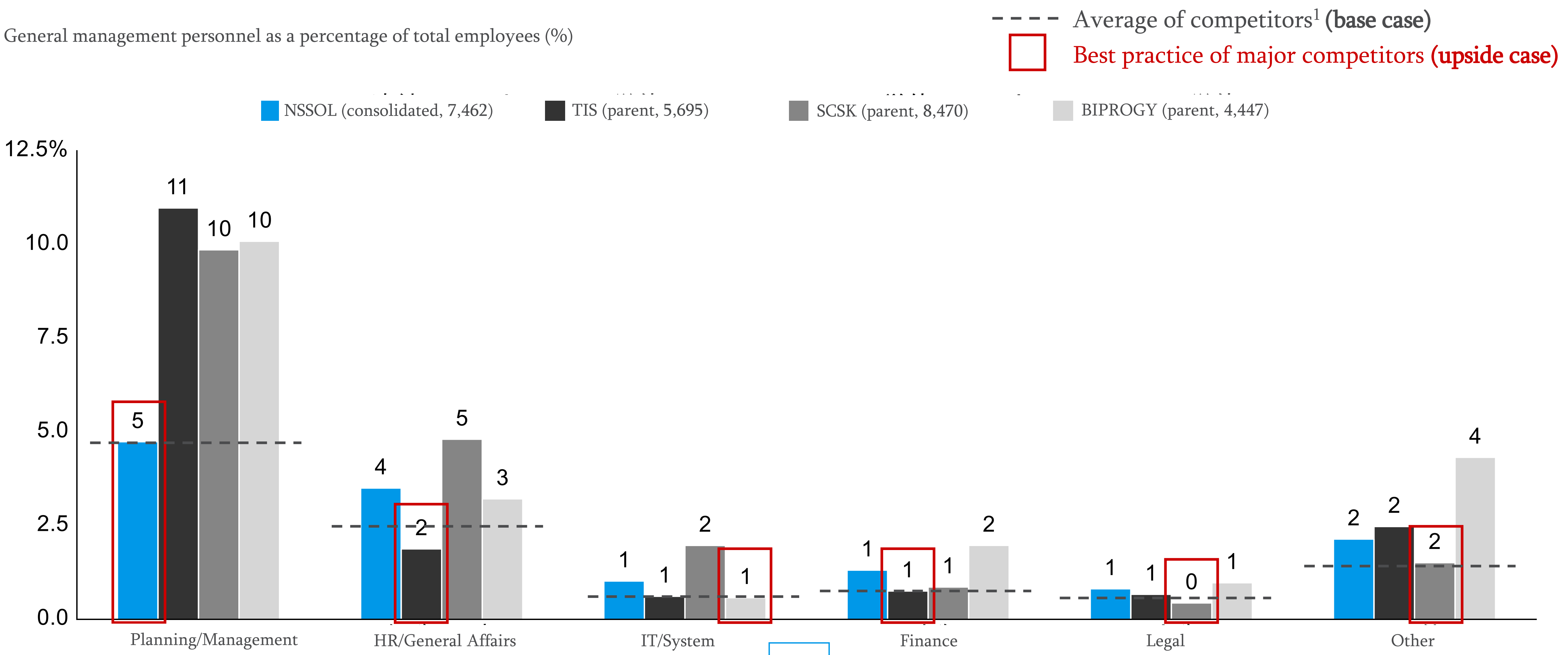
Note: The headcount after optimization is calculated by rounding up to the nearest whole number; the headcount to be reduced under Approach 1 is allocated between the parent company and subsidiaries in proportion to the current ratio of the parent company's headcount to the subsidiaries' headcount in each function; the headcount to be reduced at subsidiaries is based on Approach 2B if it is greater than that based on Approach 1

Source: Third-party research institution; interviews with market participants; company IR

6 Reduction in Headcount and Personnel Expenses | Looking at the headcount by function, the planning and management functions are efficient, while there is room for optimization in other functions compared to competitor best practices

Approach 1: Competitive benchmarking

General management personnel as a percentage of total employees (%)



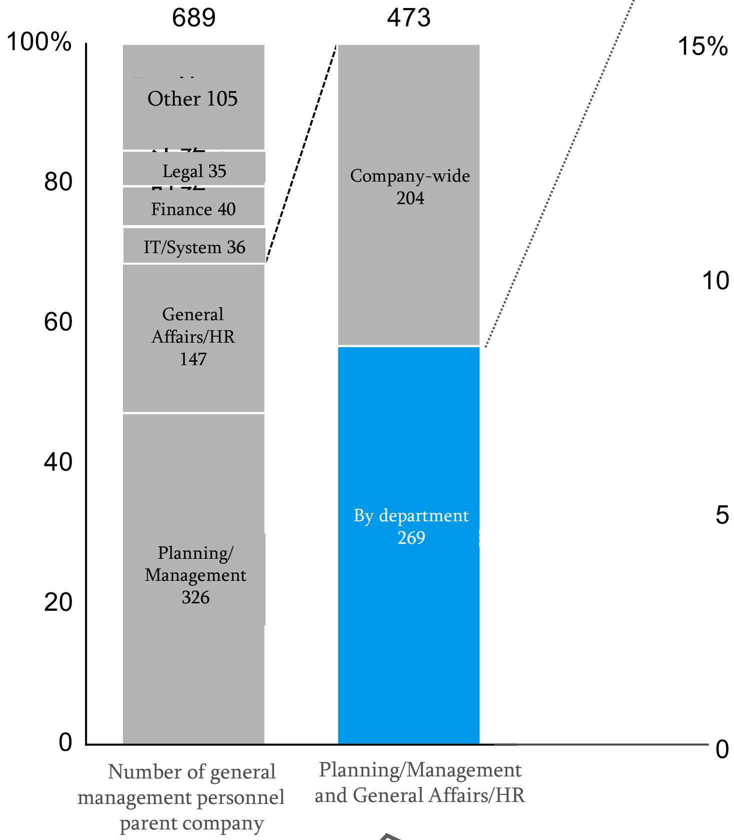
Potential reduction is 208 positions if reduced to the average of competitors (base case), and 271 positions if reduced to the best practice of competitors (upside case)

Note: [1]The average of competitors is the average of only those companies with a lower level than NSSOL, and if NSSOL is the BDP, the value of NSSOL is used
Source: Third-party research institution; interviews with market participants

6 Reduction in Headcount and Personnel Expenses | Based on internal benchmarking by department, the proportion of general management personnel in the Financial System and Steelmaking System Solutions Units is high

Approach 2A: Internal benchmarking | Comparison of departments

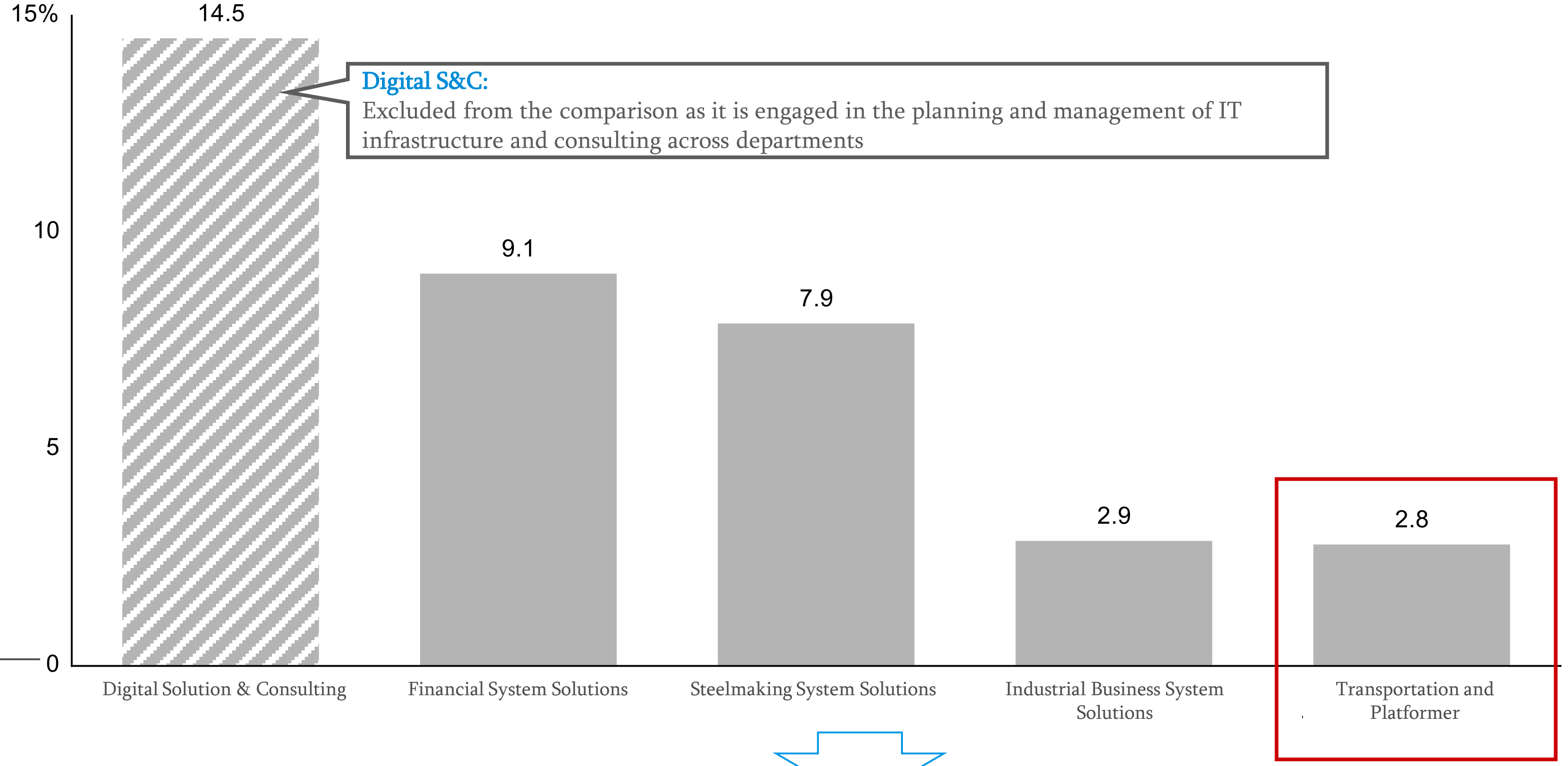
Number of general management personnel of NSSOL (parent company)



General management personnel in separate departments are included in planning/general affairs

Percentage of general management personnel by department (%, of total number of employees)

Best practice among departments



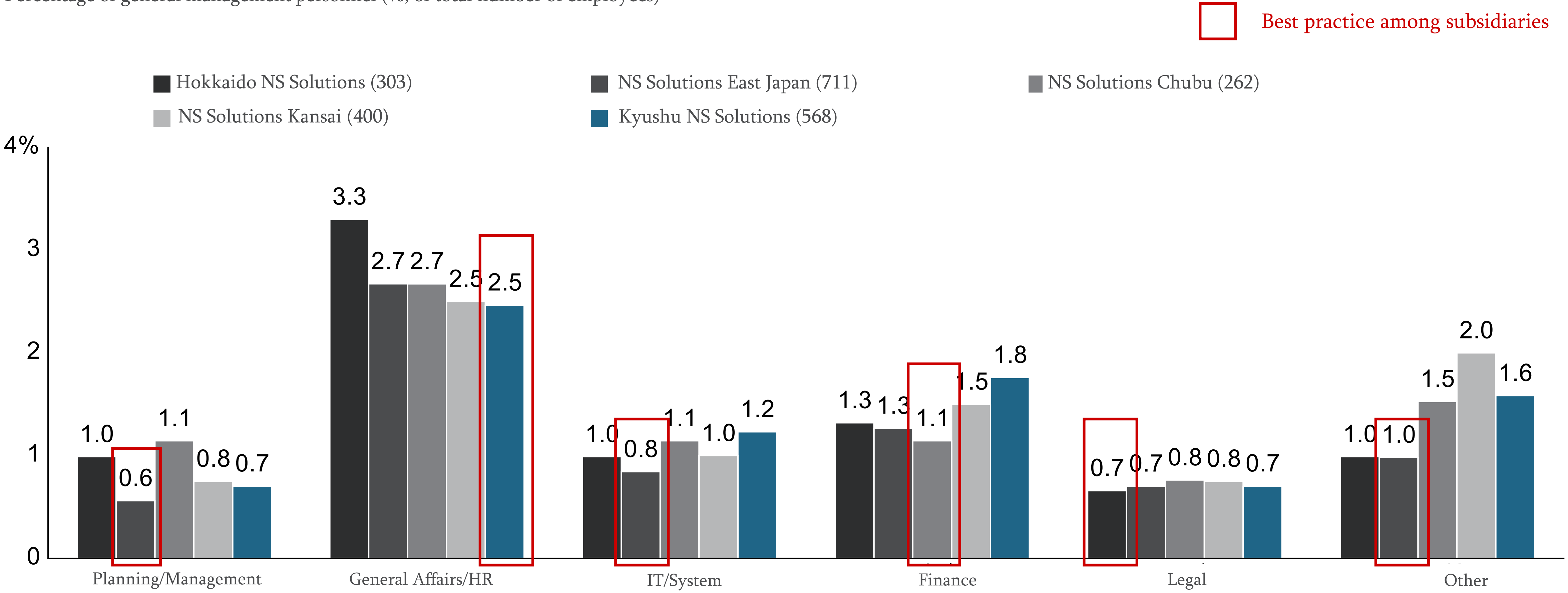
If Financial System, Steelmaking System, and Industrial Business System Solutions personnel are reduced to the level of Transportation and Platformer, **64 positions could be eliminated (24% of the 269 positions with functions by department)**

Source: Third-party research institution; interviews with market participants

6 **Reduction in Headcount and Personnel Expenses** | Even when comparing the subsidiaries of NSSOL, there may be potential for optimization, as there are differences in the number of general management personnel per employee

Approach 2B: Internal benchmarking | Comparison of subsidiaries

Percentage of general management personnel (%, of total number of employees)



If it is possible to reduce personnel to the lowest level among subsidiaries within NSSOL, **52 positions could be eliminated**

Source: Third-party research institution

Reduction in Headcount and Personnel Expenses | By reducing headcount, we believe NSSOL can increase EBITDA by approximately 1.9 billion yen in the base case and approximately 2.4 billion yen in the upside case

Financial Impact and Calculation Methodology

		Number of personnel reduced (calculated by function)			×	Personnel expenses	=	Financial effects of measures	
Base case	Parent company	Number of personnel reduced (consolidated) 208	×	Ratio of parent company 54%	×	Average personnel expenses 10.2 million yen	=	Effect on parent company 1.1 billion yen	Effects of measures on EBITDA (consolidated) **1.8 billion yen**
	Subsidiaries			Ratio of subsidiaries 46%		Average personnel expenses 7.3 million yen		Effect on subsidiaries 0.7 billion yen	
Upside case	Parent company	Number of personnel reduced (consolidated) 271	×	Ratio of parent company 54%	×	Average personnel expenses 10.2 million yen	=	Effect on parent company 1.5 billion yen	Effects of measures on EBITDA (consolidated) **2.4 billion yen**
	Subsidiaries			Ratio of subsidiaries 46%		Average personnel expenses 7.3 million yen		Effect on subsidiaries 0.9 billion yen	

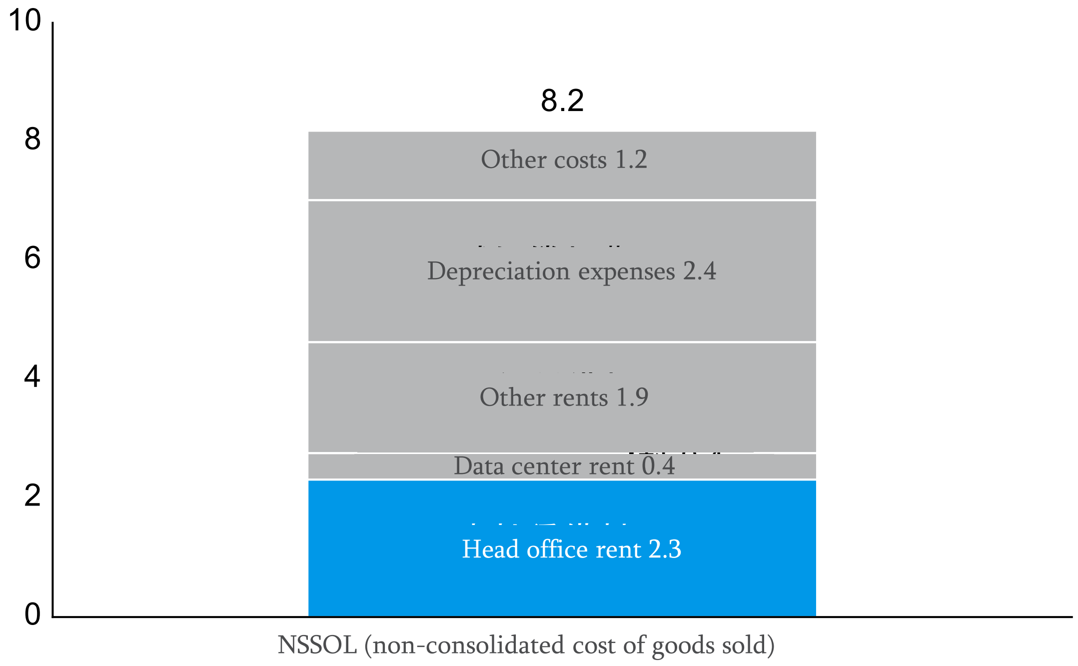
Note: The headcount after optimization is calculated by rounding up to the nearest whole number; the headcount to be reduced under Approach 1 is allocated between the parent company and subsidiaries in proportion to the current ratio of the parent company's headcount to the subsidiaries' headcount in each function; the headcount to be reduced at subsidiaries is based on Approach 2B if it is greater than that based on Approach 1

Source: Third-party research institution; interviews with market participants; company IR

7 Reduction of Other Costs | Rent for the head office (which accounts for approximately 20% of "other costs of goods sold") and "other selling, general and administrative expenses" can be reduced

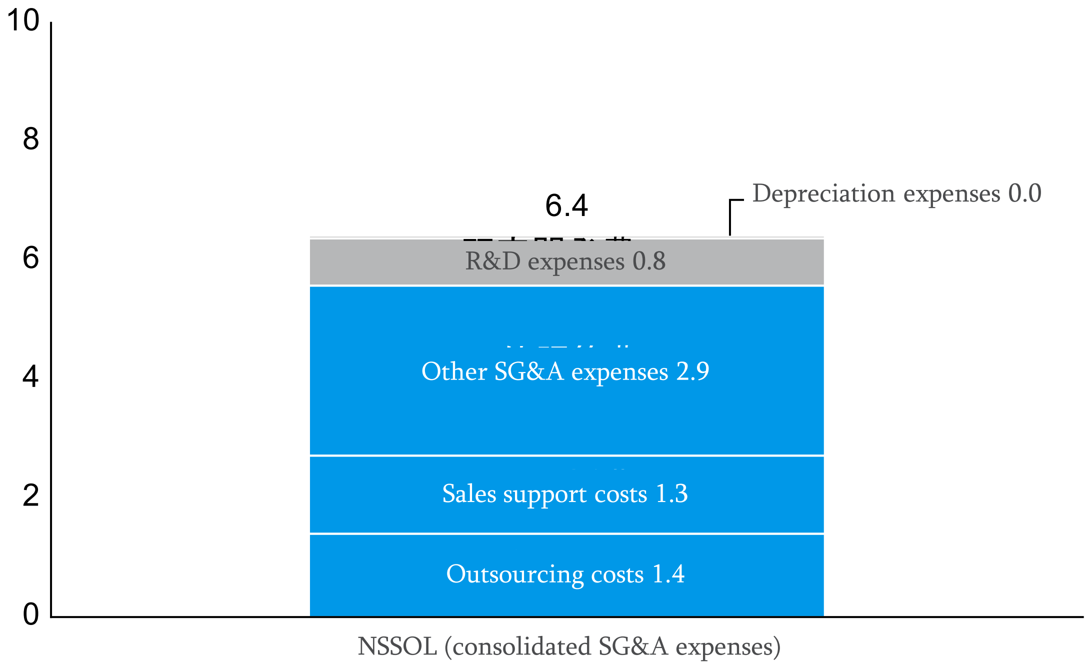
Other Cost of Goods Sold: There is room to reduce head office rent among costs excluding personnel expenses and procurement costs

Other costs (non-consolidated) as a percentage of sales (non-consolidated)[1](%)



Other SG&A Expenses: There may be cost reduction opportunities in other SG&A expenses, excluding R&D expenses and depreciation among SG&A expenses excluding personnel costs

Other SG&A expenses (consolidated) as a percentage of sales (consolidated)[2](%)



Cost items that can be reduced

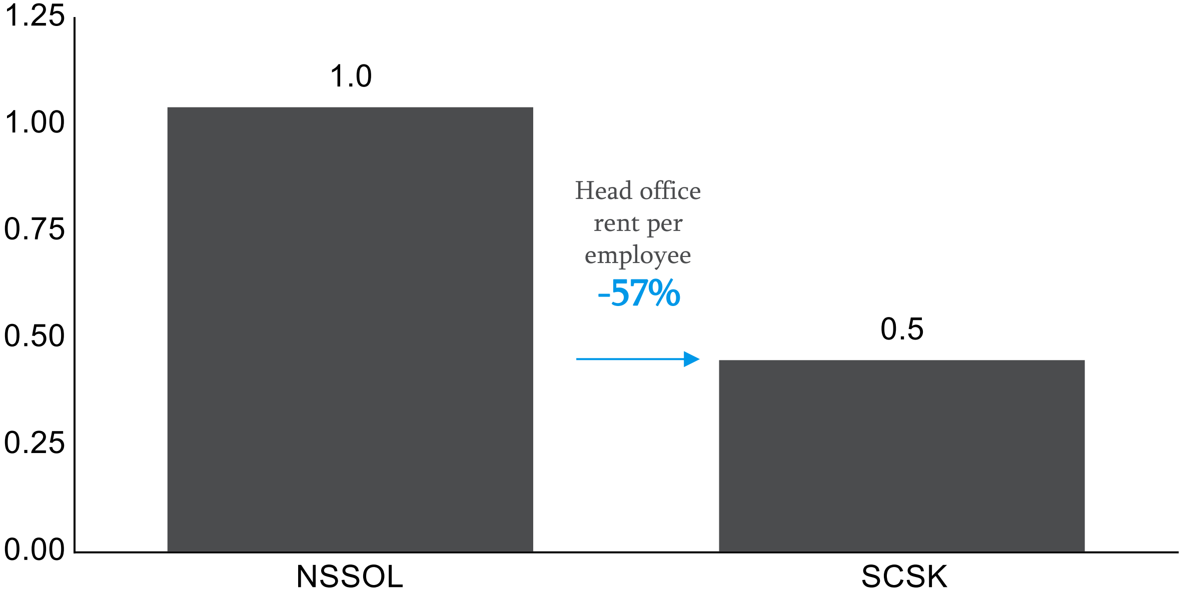
Note: [1] Other costs is the figure obtained by subtracting the labor costs, outsourcing costs and product purchase costs from the cost of goods sold [2] Other selling, general and administrative expenses is the figure obtained by subtracting the employee benefit costs from the selling, general and administrative expenses. Source: Corporate IR

7 Reduction of Other Costs - Rent | If NSSOL's rent per employee is reduced to the level of its competitor SCSK, the reduction will be approximately 57% (approximately 2.1 billion)

After implementation of the measures, NSSOL's rent per employee is expected to fall to the level of its competitor SCSK

- The measures are expected to reduce NSSOL's rent per employee (approximately 1.04 million yen) to the level of its competitor SCSK(approximately 0.45 million yen) (a reduction of approximately 57%)

Head office rent per employee (estimated figures; million yen)



	NSSOL	SCSK
Head office rent (million yen)	3,719	2,869
Number of employees	3,563	6,348

Method of calculating the rent per employee for the head office

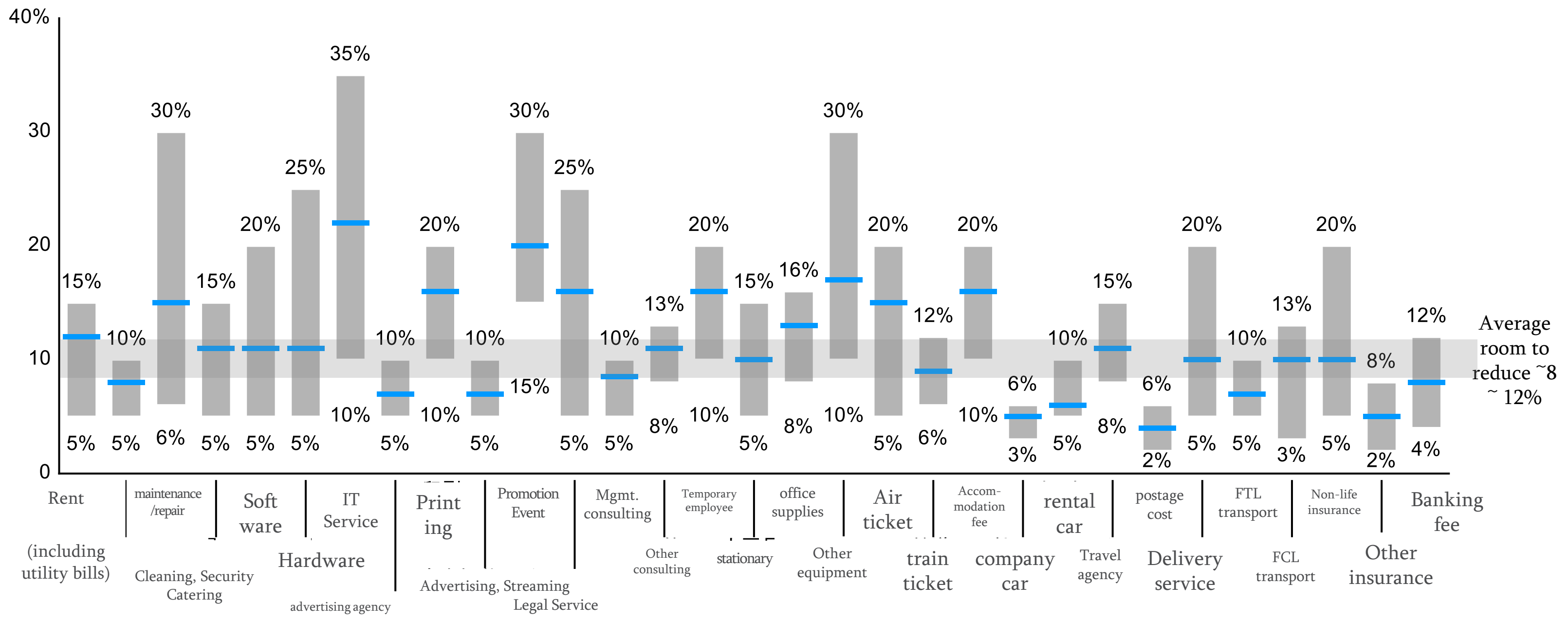
		NSSOL		SCSK	
		Toranomon Hills Business Tower	Tokyo Sumitomo Twin Building East	Toyosu Front	Toyosu Foresia
Rent (million yen)	Land price per tsubo (ten thousand yen / tsubo[1])	29,444	18,000	14,626	
	Standard floor area (tsubo[1])	900	532	1,533	1,361
	Number of floors	7	12	8	3
		2,226	1,493	2,153	717
		3,719		2,869	
Number of employees at the head office (person)		3,563		6,348	
Rent per employee (million yen / employee)		1.0		0.5	

Notes: [1]One tsubo is about 3.30578 square meters
Source: document research, Company IR

7 Reduction of Other Costs - Overhead | Based on historical industry savings, we believe NSSOL can reduce other overhead costs by 8-12%

Typical reduction of 8 - 12% in industry cost reduction projects

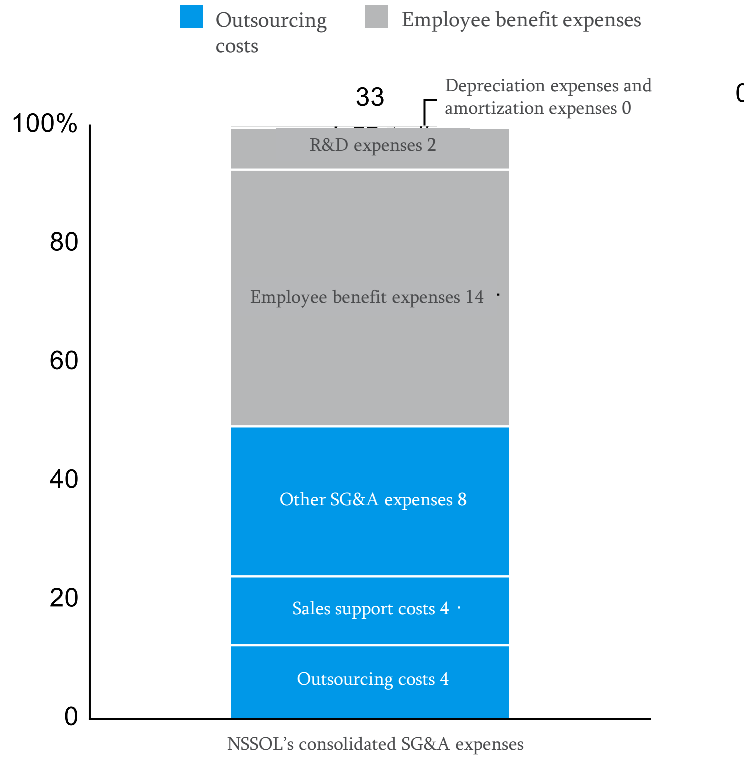
Cost reduction ratio (reduction ratio on an expenditure basis)



Category	Facility management	IT & Technology	Marketing	Professional/HR Services	Office equipment and services	Business trip	Logistics	Financial services
Average reduction ratio	8-15%	10-15%	7-13%	7-14%	7-13%	6-12%	5-10%	5-10%

Applicable to NSSOL overhead ~ 16.3 billion yen

Breakdown of NSSOL's consolidated SG&A expenses (for the fiscal year ended March 2023; billion yen)

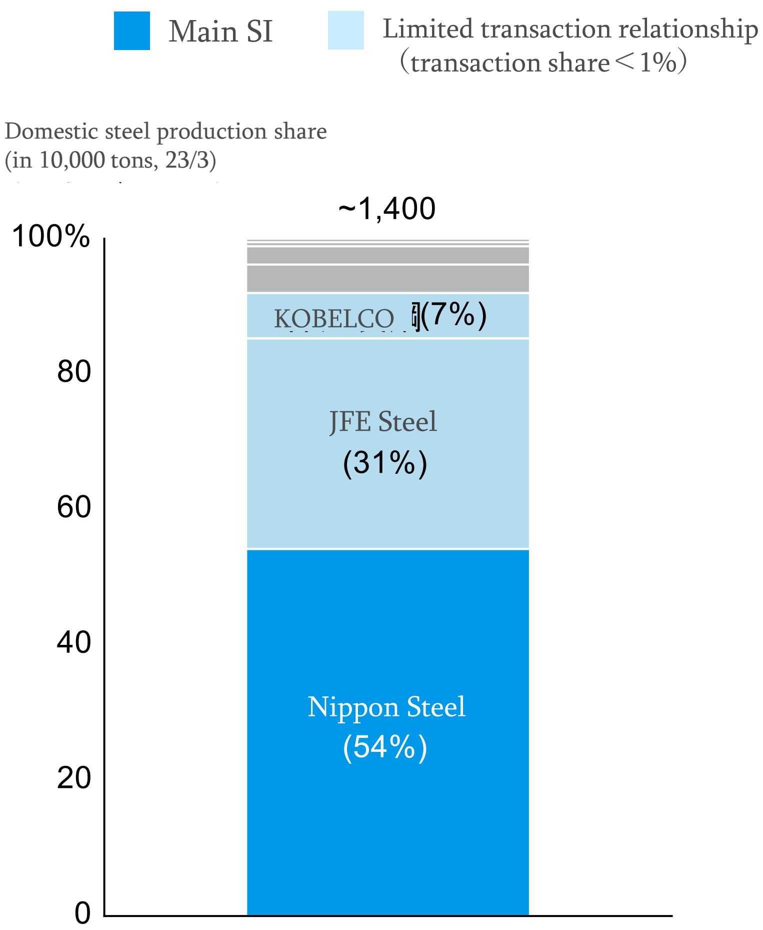


We believe we could reduce overhead costs by 1.3~2 billion yen

Note: N=10~20 for general reduction data
Source: Corporate IR; Global Consulting Firm

8 Development of Domestic Steel Manufacturer Customers | NSSOL's relationships with steel manufacturers other than Nippon Steel (e.g., JFE, KOBELCO) are limited

NSSOL is the main SI of Nippon Steel



Meanwhile, trading with JFE/KOBELCO is limited

IT investment amount of each company in FY22

XX% ：Percentage within IT investment / expenditure

		NIPPON STEEL	JFE	KOBELCO
Development (~70%)	Business computers (~15%)	Transaction share with NSSOL: 95%	Transaction share with NSSOL: <1%	Transaction share with NSSOL: <1%
	Process computers and their renewal (~40%)	Transaction share with NSSOL: 60%		
	Infrastructure (~15%)	Transaction share with NSSOL: 70%		
Maintenance and operation (~30%)		Transaction share with NSSOL: 85%	Transaction share with NSSOL: <1%	Transaction share with NSSOL: <1%
Total		~60 billion	~43 billion	~20 billion

~40% is process computers: subsidiary Nippon Steel Texeng is in charge

~15% is process computers: subsidiary Nippon Steel Texeng is in charge

Note: Market share of three companies, i.e. Nippon Steel, JFE Steel, and KOBELCO are defined as 80% (market participant basis)
Source: Company IR; interviews with market participants; reference document research

 | By alleviating concerns regarding its relationship with Nippon Steel, other domestic steel manufacturers are also expected to adopt NSSOL's core systems.

Due to a lack of human resource capacity in their own SI subsidiaries, steel manufacturers are **proactively outsourcing the core system renewals**

"JFE Systems are recently putting emphasis on the recruitment of project managers, and there is a shortage of engineers. Since there are insufficient resources to conduct core system renewals for all works of JFE Steel, JFE ***needs to outsource a certain portion of this service to others****"*

Undisclosed

"Since core system renewals for each of the works (of KOBELCO) cannot be processed by resources of its subsidiary (KOBELCO SYSTEMS) alone, ***we have no other choice but to outsource the service****"*

Undisclosed

"In 2021, when the opening up of Sendai core system main frame was planned, (JFE Steel) had decided to engage TIS, which is an outside SI, ***due to the shortage of staff at Systems subsidiary alone*** *"*

Undisclosed

Outsource candidates have a **strong preference for using NSSOL if their concerns related to NSSOL's relationship with Nippon Steel are resolved**

"For example, NEC and Fujitsu do not offer much guarantee or countermeasures if the machines stop at works, and if there is any breakdown in the machines, they will handle the matter only in accordance with the manual and make replacements. Since NSSOL is a steel industry expert and is technically capable of adjusting the machines instead of replacing them, ***they are able to handle speedily and probably minimize the loss of operating ratio. From the steel manufacturer's point of view, NSSOL is an ideal party to engage for core system renewal****"*

Undisclosed

"Given the expertise and project performance in the steel industry, and comparing with Tier 1 such as Fujitsu and NEC, ***NSSOL is predominantly stronger in Japan. If we can borrow NSSOL's intelligence, we would like their support for our core system renewal*** *"*

Undisclosed

"NSSOL has advantage over Fujitsu, etc. in terms of steel industry core system renewal projects. (If it separates from Nippon Steel) ***we would be able to engage NSSOL for such projects****"*

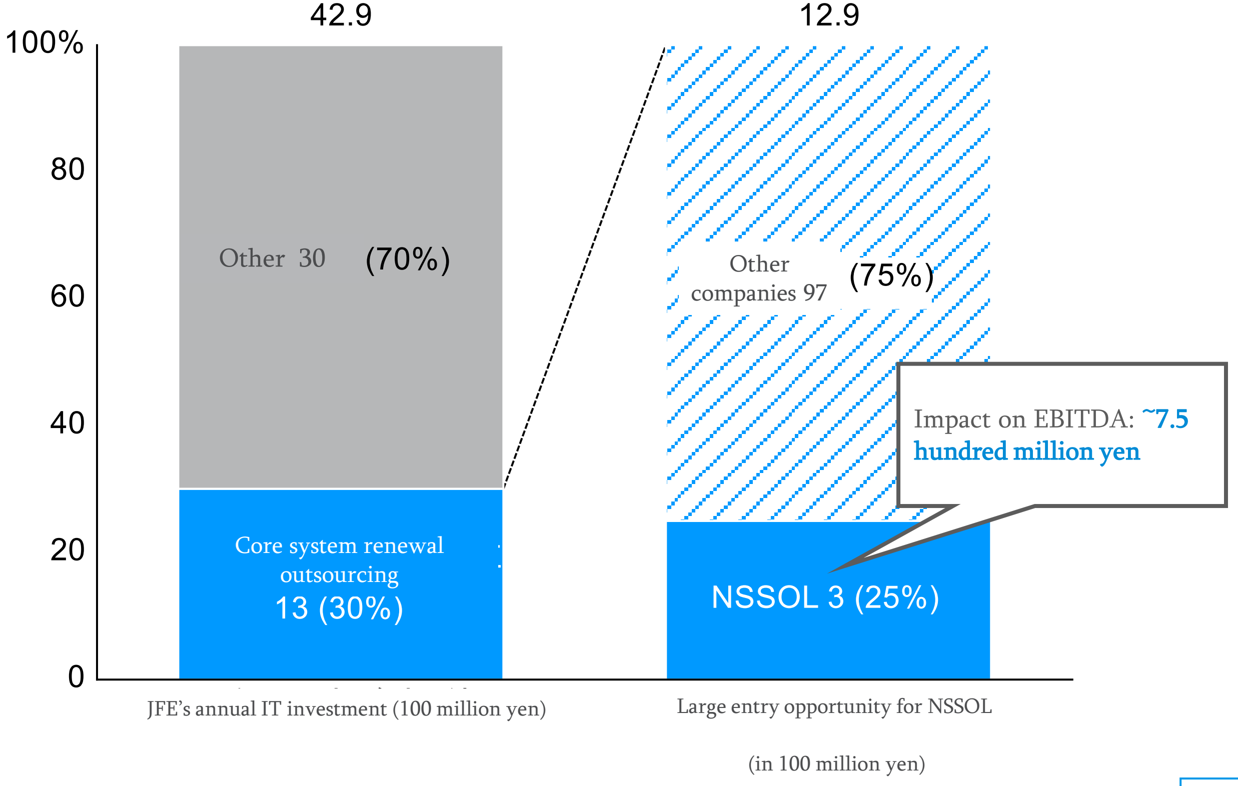
Undisclosed

Source: Interviews with market participants

8 Development of Domestic Steel Manufacturer Customers | By engaging in a core system renewal project for JFE/KOBELCO, sales could reach 4.7 billion and EBITDA could reach 1.1 billion yen

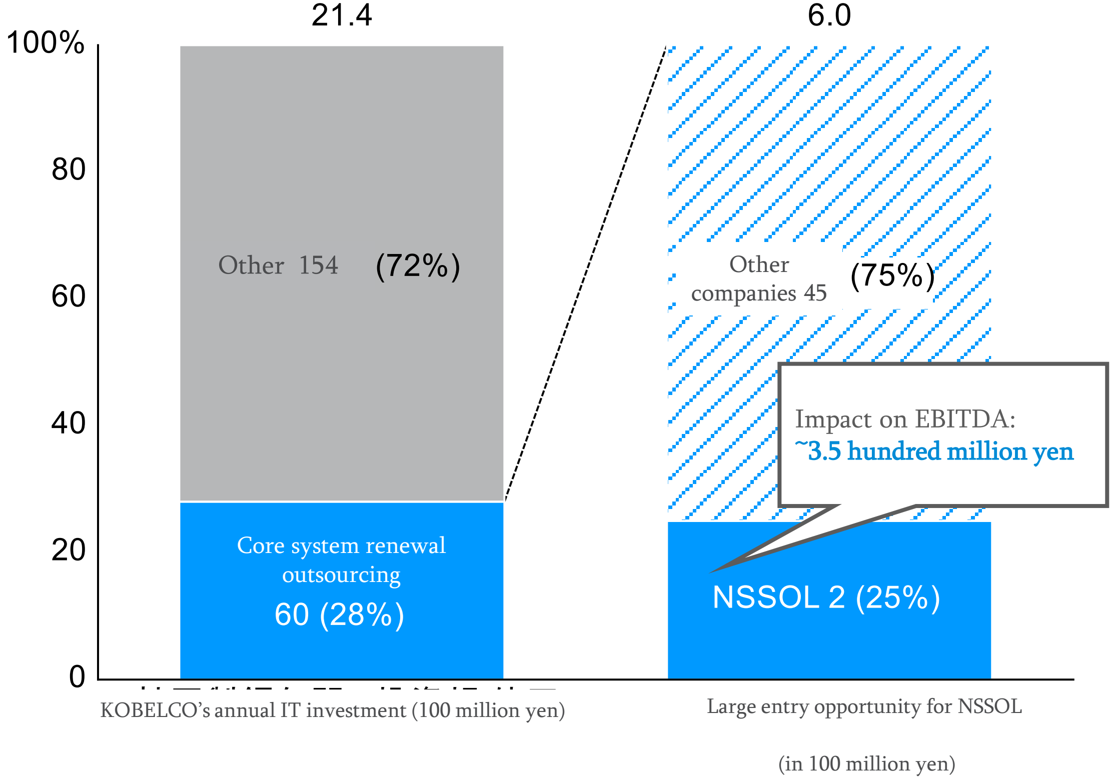
JFE

Impact on NSSOL's sales (in billion yen) by having JFE Steel as customer



KOBELCO

Impact on NSSOL's sales (in billion yen) by having KOBELCO as customer



Development of domestic steel manufacturer customers can dramatically increase sales and EBITDA

Source: Company IR; interviews with market participants; reference document research

 | If NSSOL strengthens its relationships with JFE and KOBELCO, we would expect minimal impact on NSSOL's existing businesses with Nippon Steel

If NSSOL deepens its business relationships with JFE/KOBELCO, what is the percentage of business shares that may be transferred by Nippon Steel to other SIs due to information leakage risk, etc. (based on interviews with former employees of Nippon Steel)?

Business computers

0%

Percentage of business transferred to other SIs

"Among the steel-related services which Nippon Steel engages NSSOL, ***we do not want exclusive system*** *that manage complex manufacturing process (rolling, etc.)* ***to be leaked to other companies. However, this risk may be mitigated by separating the divisions in charge of the projects within NSSOL, and as a result, Nippon Steel will also not be concerned****"*

Undisclosed

Process computers and their renewal

0%

Percentage of business transferred to other SIs

"Since the technology used in process computers is for general purposes, ***Nippon Steel is not concerned with information leakage even if NSSOL develops any competing customers****"*

Undisclosed

Infrastructure

0%

Percentage of business transferred to other SIs

"Infrastructure deals with machinery itself such as servers and storages, and even if NSSOL becomes in charge of installation of infrastructure of other steel manufacturers, ***I believe Nippon Steel will have no concerns****"*

Undisclosed

Maintenance and operation

0%

Percentage of business transferred to other SIs

"Even if NSSOL accepts outsource of projects from competitors, Nippon Steel ***is very unlikely to engage*** *any entities other than NSSOL for system maintenance and operation"*

Undisclosed

Source: Interviews with market participants

9 Development of Overseas Steel Manufacturer Customers | Excluding certain manufacturers that have historically collaborated with Nippon Steel, some steel manufacturers have noted that that "executing transactions with NSSOL is difficult given the relationship between NSSOL and the parent company"

Global steel manufacturers that are concerned with the relationship between NSSOL and its parent company

ArcelorMittal

*"If the parent company of a SI is another steel manufacturer, **we do not outsource the service to it regardless of region**. In order to avoid any leakage of confidential information to competitors, (ArcelorMittal) engages Infosys, which is not from the steel industry"*

Undisclosed

*"Since other EU steel manufacturers are also concerned with the leakage of data to competitors, **we outsource system development projects to SI not from the steel industry**"*

Undisclosed

posco

*"Due to concerns regarding internal data leakage, **we do not engage any SI affiliated with the competing steel manufacturers.** This applies even more to Nippon Steel, which is a competitor in the same Asia region"*

Undisclosed

*"If **production plan data or any other confidential data is leaked**, competitors may use it to offer more advantageous production plan and pricing"*

Undisclosed

Global steel manufacturers that have historically cooperated with Nippon Steel

TATA STEEL

*"In 2011, Nippon Steel and TATA formed a JV and established an automobile equipment manufacturing plant in India. The transaction is not deemed as a risk since both companies have built a strong relationship and issues related to information leakage never occurred. **Projects are not refused because of the relationship with the parent company**"*

Undisclosed

*"If it is possible to be independent from the parent company, NSSOL will presumably be able to act more freely. **Perhaps it may also be able to obtain development projects from other Indian manufacturers**"*

Undisclosed

NUCOR

*"We had established an automotive steel sheet plant in Mexico jointly with JFE, and we have a long-term relationship with Japanese steel manufacturers. Therefore, **The fact that NSSOL is an affiliate of Nippon Steel will not cause any negative effects**"*

Undisclosed

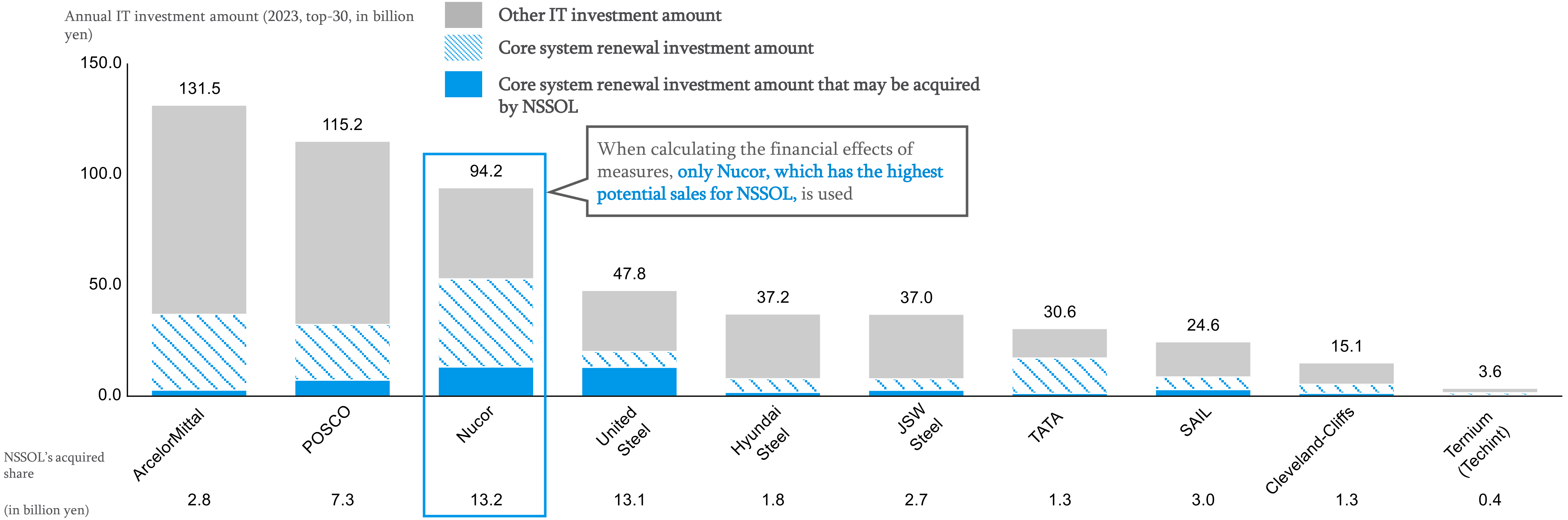
*"Since other American steel manufacturers also have a long-term relationship with Japan, **there is little resistance to engaging NSSOL** (subsidiary of Nippon Steel)"*

Undisclosed

Source: Interviews with market participants

9 Development of Overseas Steel Manufacturer Customers | By achieving independence from Nippon Steel, NSSOL can capture 20–25% of overseas steel manufacturers' IT investments. We believe this would increase EBITDA by approximately 2.2 billion yen

Global steel manufacturers which NSSOL may enter



If NSSOL captures 25% of Nucor's IT system renewal spend, we believe it can generate 2.2 billion yen in incremental EBITDA

Note: Each steel manufacturer's core renewal investment ratio, of which NSSOL's winning percentage is based on interviews with market participants
Source: OMDIA; interviews with market participants

9 Development of Overseas Steel Manufacturer Customers | NSSOL's strengthened business ties with overseas major steel manufacturers will not substantially impact the existing businesses with Nippon Steel

If NSSOL deepens its business relationships with Nucor/Arcelor Mittal/US Steel and other overseas major steel manufacturers, what is the percentage of business shares that may be transferred to other SIs due to information leakage risk, etc. (based on interviews with former Nippon Steel employees)?

Business computers

0%

Percentage of business transferred to other SIs

*"In the area of business computers, there is a risk that Nippon Steel data will leak. However, as in the case of domestic competing steel manufacturers, **Nippon Steel will not be concerned as long as NSSOL executes a stringent NDA and strictly separates the divisions in charge of projects** also for transactions with overseas steel manufacturers"*

Undisclosed

Process computers and their renewal

0%

Percentage of business transferred to other SIs

*"As with the case of domestic manufacturers, there is little risk of leakage of Nippon Steel's information due to process computers, so even if NSSOL transacts with overseas steel manufacturers, **this will have no impact on Nippon Steel**"*

Undisclosed

Infrastructure

0%

Percentage of business transferred to other SIs

*"Since infrastructure deals with servers and other machinery and does not include Nippon Steel's information, there is hardly any information leakage risk. Thus, even if NSSOL conducts overseas transactions also in this area, **the transaction share with Nippon Steel is unlikely to decrease**"*

Undisclosed

Maintenance and operation

0%

Percentage of business transferred to other SIs

*"Even if NSSOL accepts overseas competitor projects, **it is technically difficult to transfer** the maintenance and operation of works system **to other SI** in the first place"*

Undisclosed

Source: Interviews with market participants

Section 2: Improvement in the Balance Sheet (Maximization of Investment Capital)

3D INVESTMENT PARTNERS

Section 2: Improvement in the Balance Sheet (Maximization of Investment Capital)

- NSSOL holds a substantial amount of non-business assets, primarily in the form of deposits and cash equivalents
- There is also room to rationalize working capital and business assets
- As described below, liquidating the non-core financial assets will yield proceeds worth at least 171.1 billion yen, and rationalization of working capital will free up an additional 13.3 billion yen

Optimization of non-business assets: Proceeds of 171.1 billion yen

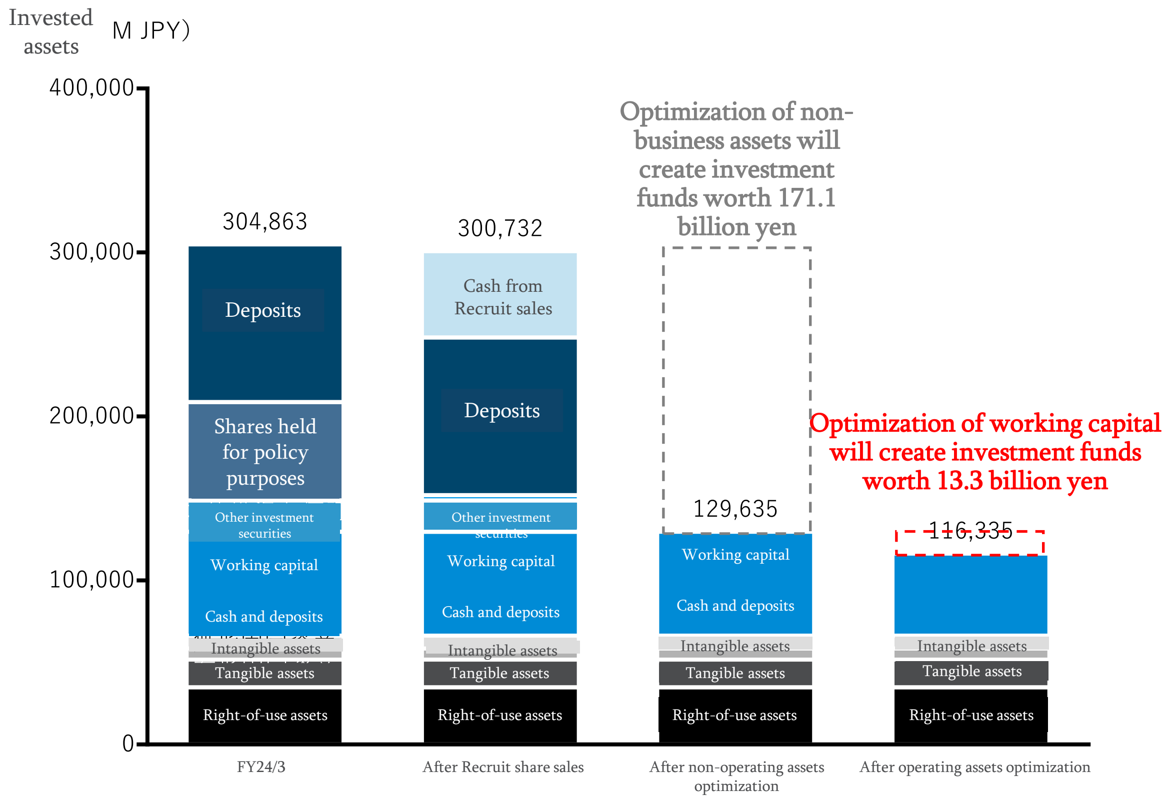
- **Deposits: Proceeds of 96.1 billion yen**
  - Full amount is liquidated by assuming that the deposits may be promptly liquidated based on interviews with NSSOL's IR
- **The sale of strategic shares (Recruit stock) in cash and cash equivalents + remaining strategic shares: Proceeds of 55.9 billion yen**
  - The majority of strategic shares, consisting of Recruit shares, were sold in September 2024
  - All shares are sold, assuming that there is no business impact
- **Other securities: Proceeds of 19.1 billion yen**
  - All investments with investment returns below the hurdle rate are sold

Optimization of business assets: 13.3 billion yen in additional funds

- **Working capital: 13.3 billion yen in additional funds**
  - Assuming that Cash Conversion Cycle ("CCC") will improve to reach the average levels of SCSK, TIS, BIPROGY
  - If it improves to the highest level in the industry, additional investment funds can be generated

By liquidating non-operating assets and rationalizing working capital, NSSOL can reduce invested capital and create funds available for investment worth approximately 184.4 billion yen

Change in invested assets



Assumptions of tentative calculation

- **Liquidation of non-core assets: Proceeds of 171.1 billion yen**

  Deposits: Proceeds of 96.1 billion yen A
  - Full amount is liquidated assuming that the deposits may be promptly liquidated based on interviews with NSSOL's IR

  The sale of strategic shares in cash and cash equivalents + remaining strategic shares: Proceeds of 55.9 billion yen B
  - The majority of strategic shares, consisting of Recruit shares, were sold in September 2024
  - All shares are sold, assuming that there is no business impact

  Other securities: Proceeds of 19.1 billion yen C
  - All are sold, assuming that investment returns are below the hurdle rate

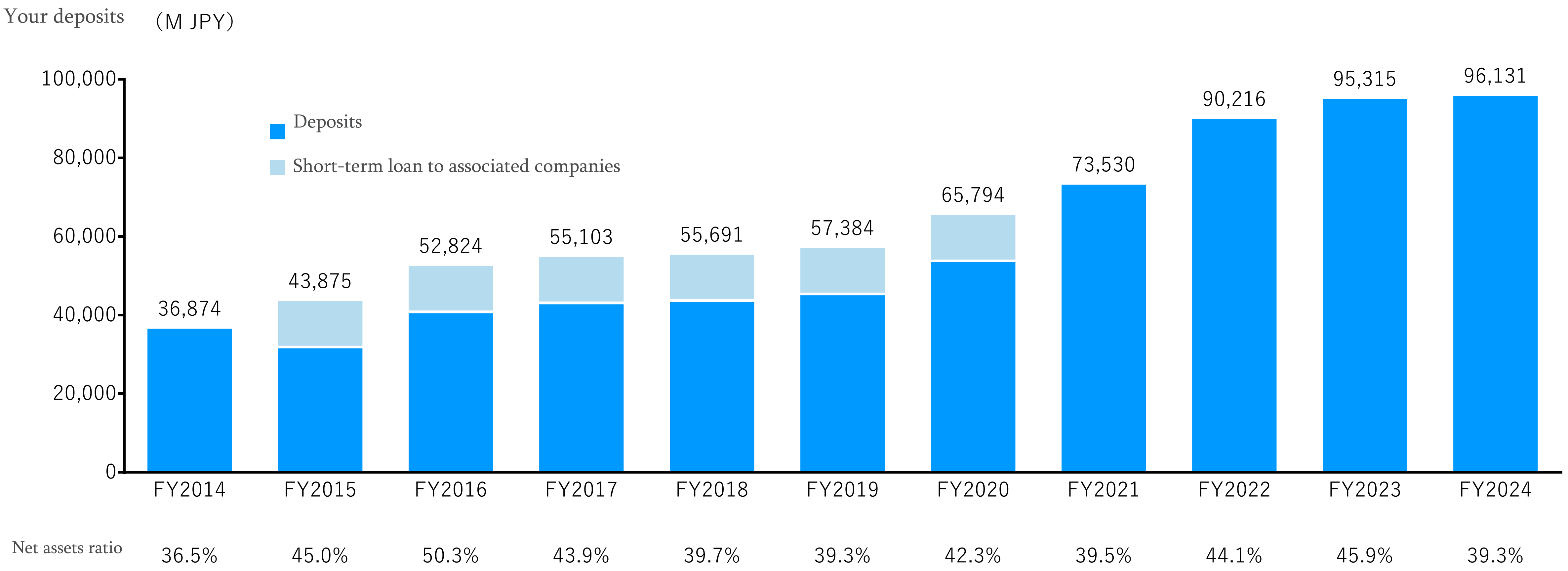
- **Rationalization of working capital: 13.3 billion yen in additional funds for investment**

  Working capital[2]: Proceeds of 13.3 billion yen D
  - Assuming that CCC will improve to reach the average levels of SCSK,TIS, BIPROGY
  - If it improves to the highest level in the industry, additional investment funds can be generated

Note: [1] Those defined as specified investment shares in the annual securities report. [2] inventory assets＋operating receivables＋contract assets－operating payables－contract liability
Source: Annual securities report

A NSSOL deposits 40% of its net assets (approximately 96 billion yen) with Nippon Steel

The deposits made to Nippon Steel have been increasing each year, and currently, 96.1 billion yen (40% of its net assets) are recorded as deposits



Source: Annual securities report

A Interest rate of NSSOL's deposits is 0.2%, which is below the NSSOL's cost of capital and therefore damages corporate value

Annual securities report for FY 2024/3

Consolidated fiscal year (from April 1, 2023 to March 31, 2024)

(in million yen)

Type of company	Company name	Relationship with related parties	Transaction amount	Outstanding balance
Parent company	Nippon Steel Corporation	Sales of products, etc.	62,509	15,274
		Deposit and lending of funds	(Fund deposit) 80,100 (Reversal of funds) 79,500 (Interest income) 215	96,131
Parent company's subsidiary	Nippon Steel Texeng Co., Ltd.	Intended acquirer of shares	8,143	8,143

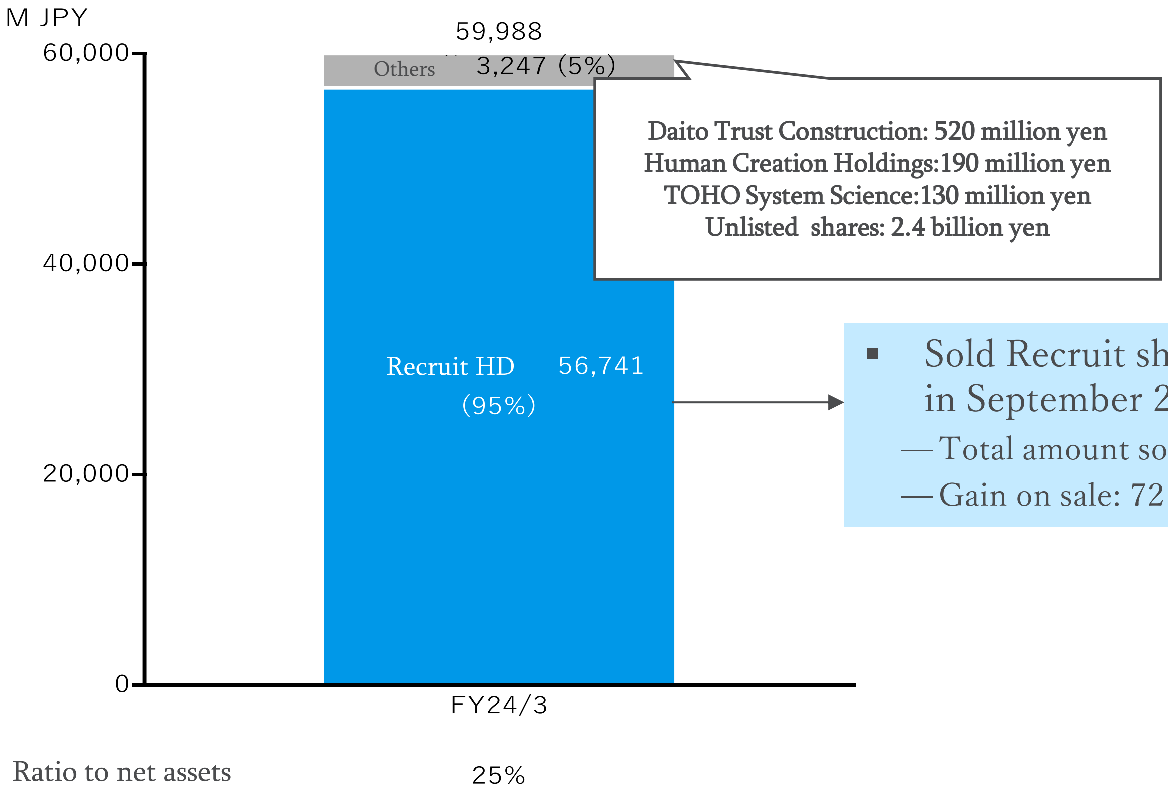
Interest income from deposits (FY2024/3)		Average deposit balance during the period(FY2024/3)		Interest rate of deposits
215 million yen	÷	95,723 million yen	=	0.2%

NSSOL should immediately liquidate its deposits with Nippon Steel, as they are well below the cost of capital

Source: Annual securities report

As of FY24/3, NSSOL held significant strategic shares, mainly in Recruit, but sold them in September 2024 for 74.3 billion yen (52.7 billion yen after tax)

Composition of shares held for policy purposes (specified investment shares)
(FY24/3)



- Sold Recruit shares for 52.7 billion yen after tax in September 2024
  — Total amount sold: 74.3 billion yen
  — Gain on sale: 72 billion yen

The sale of strategic shares (Recruit shares) will generate 52.7 billion yen in cash, combined with the remaining 3.2 billion yen in strategic shares, totaling 55.9 billion yen

Source: Annual Securities Report

B NSSOL's strategic shares should be sold unless a clear, objective rationale to justify continued ownership can be articulated

Strategic shares are identified as factors that deteriorate capital efficiency, and their liquidation is being called for.

*"(Corporate Management Reform: Promotion of 'Value-Creating Management') In particular, the cash holdings, **shares held for policy purposes**, and high levels of retained earnings **that are pointed out as characteristic of Japanese companies, deteriorate capital efficiency. Therefore, efforts will be made to asses and address these situations.**"*


Ministry of Economy, Trade and Industry

Material 4

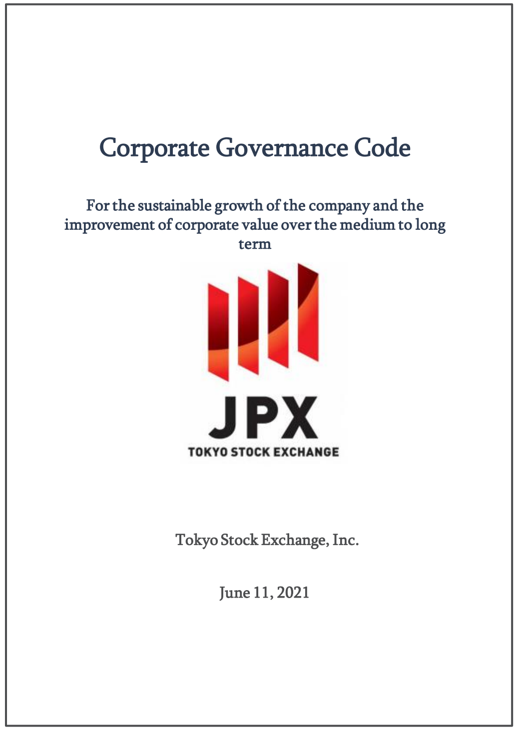
Creating a Group of Companies that Can Win in Global Competition ②

Ministry of Economy, Trade and Industry, Policy Bureau

April 2022

Unless the rationale for holding the shares is objectively and transparently established, listed companies should not hold strategic shares

*"When a listed company holds listed shares as shares held for policy purposes, [omitted] each year, the board of directors **should specifically and carefully examine whether the purpose of holding each share held for policy purposes is appropriate, whether the benefits and risks associated with holding the shares are commensurate with the cost of capital, and verify the appropriateness of holding the shares, while also disclosing the content of such verification.**"*


Corporate Governance Code

For the sustainable growth of the company and the improvement of corporate value over the medium to long term

JPX

TOKYO STOCK EXCHANGE

Tokyo Stock Exchange, Inc.

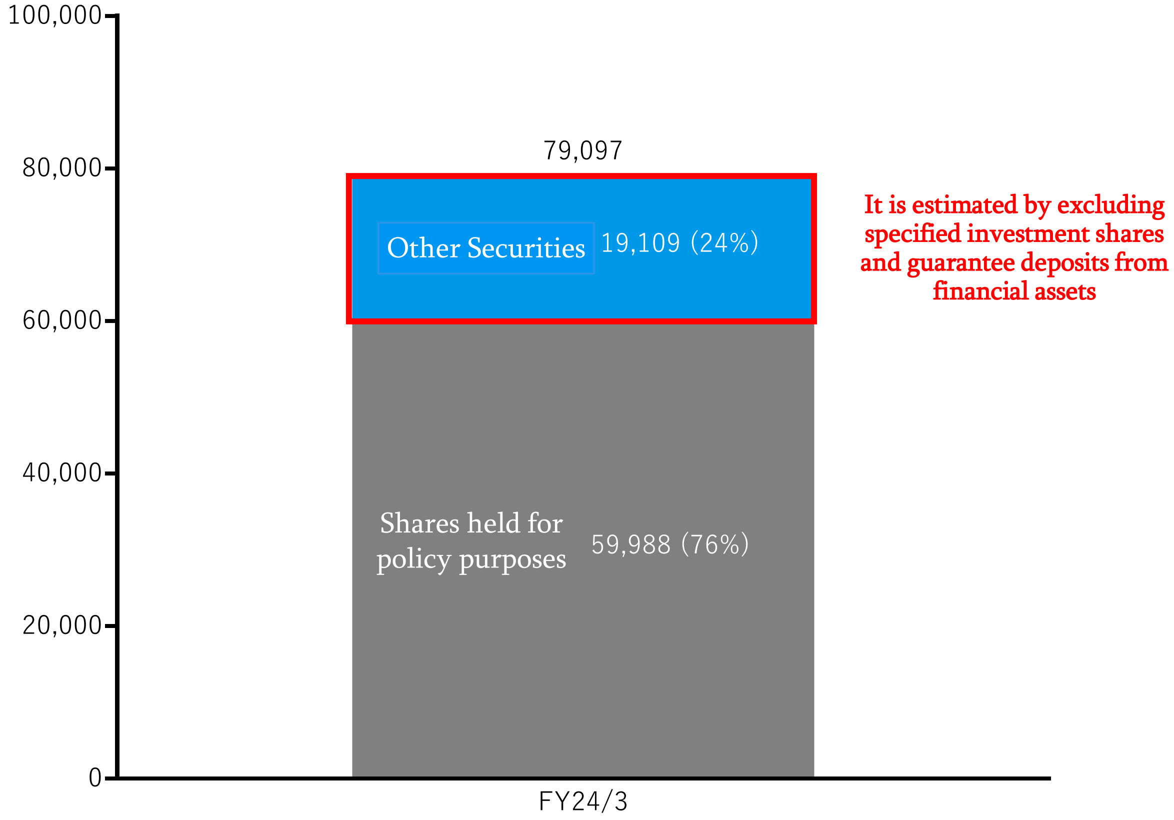
June 11, 2021

Source: Creating a Group of Companies that Can Win in Global Competition ② by Ministry of Economy, Trade and Industry, Policy Bureau; Tokyo Stock Exchange, Corporate Governance Code

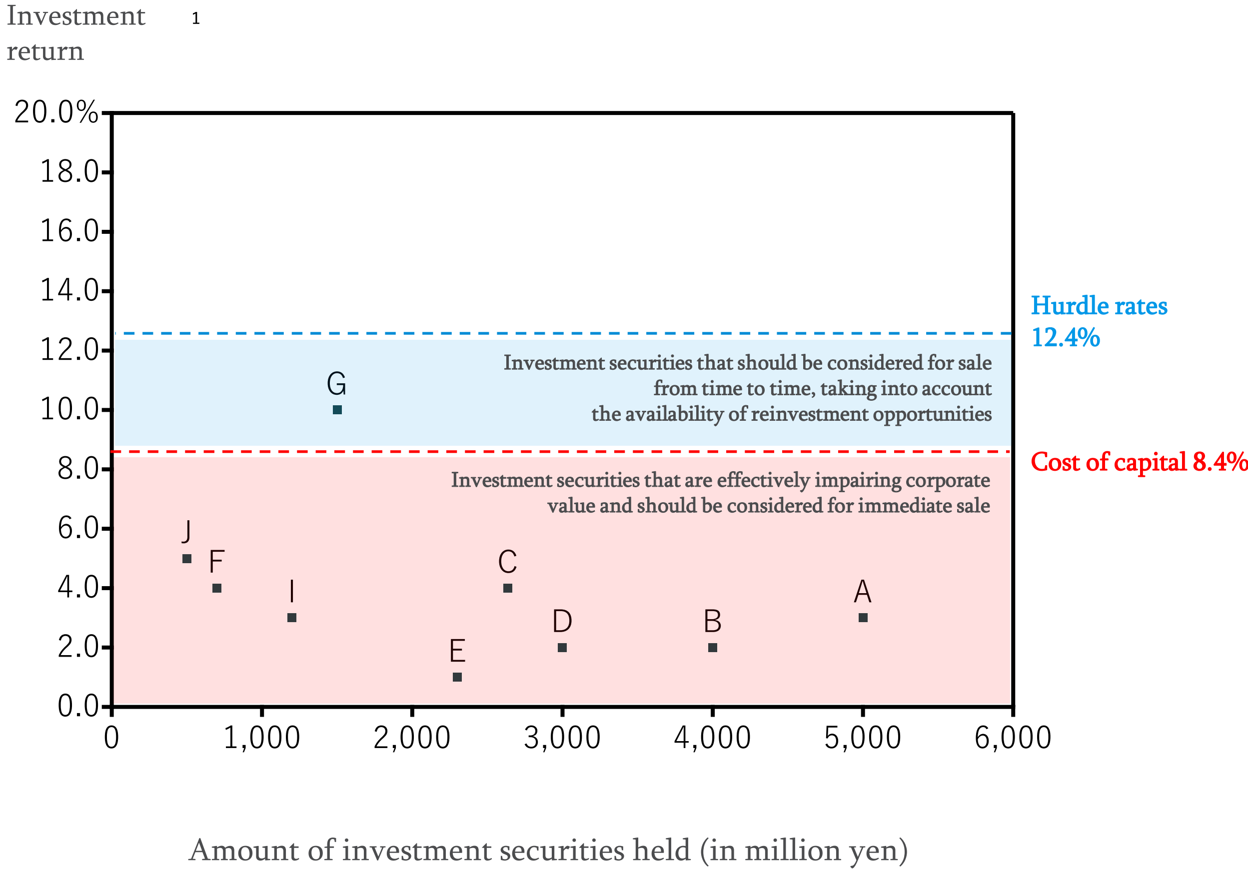
C Shares held for investment purposes worth 19 billion yen should be liquidated unless returns exceed appropriate hurdle rates

In addition to the strategic shares, NSSOL holds investment securities worth approximately 19 billion yen

Breakdown of investment securities (in million yen)



These investment securities should be liquidated based on the cost of capital and hurdle rates



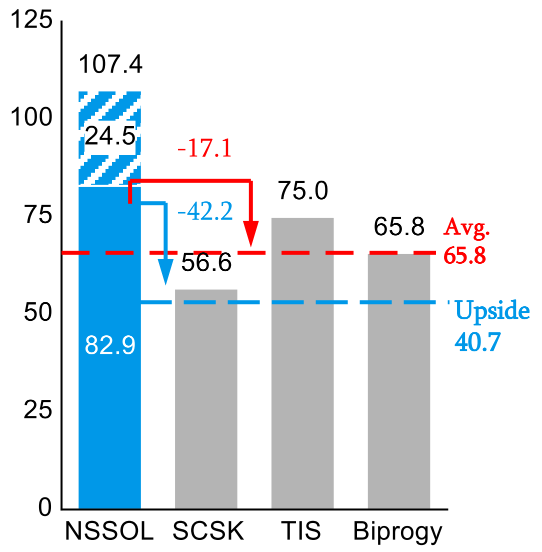
Note: [1] If it is assumed that the shares will be held for the long term, ROIC = after-tax profit / investment book value is used. If it is not assumed that the shares will be held for the long term, IRR, which is calculated based on the timing and price of the sale, is used
Source: Annual Securities Report

D NSSOL has a longer cash conversion cycle than its industry peers

Updated points in time from company submitted version

CCC

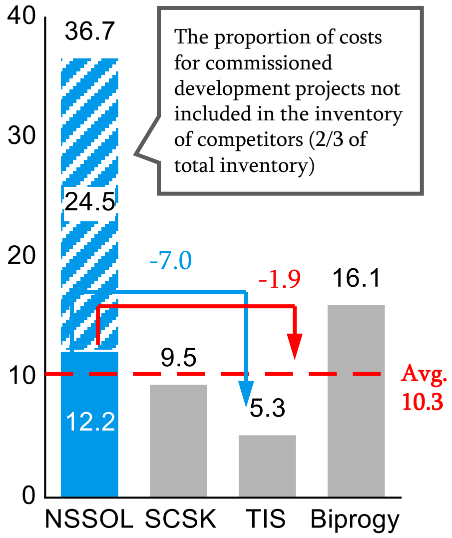
Cash Conversion Cycle (Days, FY24/3)



We estimate that NSSOL can reduce working capital by 13.3 billion yen in the base case and 31.3 billion yen in the upside case

Inventory Turnover Days

Inventory Turnover Days (Days, FY24/3)

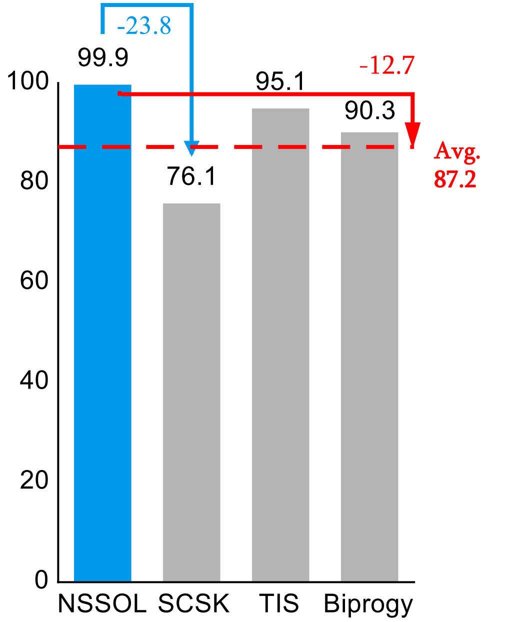


(in billion yen)

	NSSOL	SCSK	TIS	Biprogy
Cost price	232	340	382	262
Inventory assets	23	9	6	12
SW/HW ratio (%)	20%	19%	14%	27%

Accounts Receivable Turnover Days

Accounts Receivable Turnover Days (Days, FY24/3)

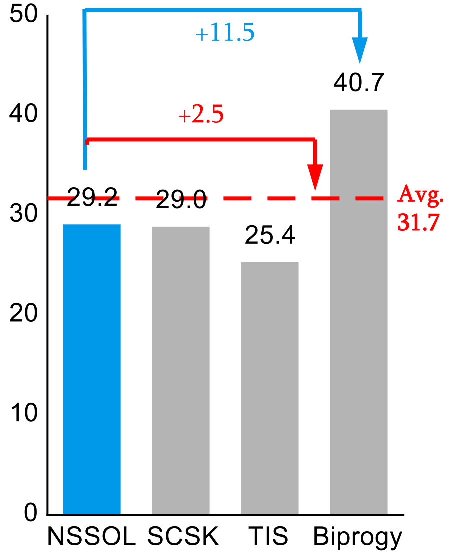


(in billion yen)

	NSSOL	SCSK	TIS	Biprogy
Sales	301	463	529	355
Accounts receivable[1]	82	97	138	88

Accounts Payable Turnover Days

Accounts Payable Turnover Days (Days, FY24/3)



(in billion yen)

	NSSOL	SCSK	TIS	Biprogy
Cost price	232	340	382	262
Accounts payable[1]	19	27	27	29

Note: [1] Accounts receivable include notes receivable and contract assets; accounts payable include notes payable
Source: Corporate IR

D NSSOL's cash conversion cycle is longer than that of its industry peers. This is due to "business practices of steel and manufacturing industry customers" and "incomplete collection for each project phase"

Reasons for NSSOL's long cash conversion cycle

Business practices of steel and manufacturing industry customers

- **The collection period for accounts receivable from customers in** the manufacturing industry, particularly **the steel industry (=parent company), is several months longer than in other industries**
  - In principle, accounts receivable from customers in other industries are collected **within one month of delivery and/or acceptance inspection**
  - On the other hand, accounts receivable from customers in the manufacturing or steel industries are often collected **2 to 6 months after delivery and/or acceptance inspection**, due to business practices
  - In NSSOL, **the proportion of customers in steel (parent company) and manufacturing industry** is large, so the accounts receivable collection period is long

"In principle, payment is made at the end of each month, but ***accounts receivables from customers in the manufacturing industry is collected 2-3 months later due to their business practice. In particular, in case of customers in the steel industry****, it may take* ***as long as 6 months.****"*

Undisclosed

Incomplete collection for each project phase

- Unlike competitors, **NSSOL is not thoroughly enforcing accounts receivable collection for each project phase**
  - Competitors divide project phases into smaller segments and manage profitability for each phase. They are also proactive about collecting accounts receivable
  - On the other hand, NSSOL manages profitability for the entire project; it is not proactive about collecting accounts receivable for each segment during the project period

*"****Competitors divide the project phases into smaller segments, such as construction and maintenance, and set profit margins for each phase to manage profitability.*** *NSSOL, on the other hand, does not divide the project phase into smaller segments to ensure flexibility, and instead* ***examines the profit margin for the entire project. As a result, sales are managed relatively loosely****, which leads to delays in collecting sales."*

Undisclosed

Source: Interviews with market participants

Section 3: Improvement in Capital Allocation (Maximization of Value Through Reinvestment)

3D INVESTMENT PARTNERS

Section 3: Improvement in Capital Allocation (Maximization of Value Through Reinvestment)

- **To achieve substantial growth in corporate value, reinvesting with internal rates of return that significantly exceed the cost of capital is essential**
  - ― Investments with returns below the cost of capital will damage corporate value, so strict hurdle rates must be established
  - ― Hurdle rates should be set by adding a margin to the cost of capital. The margin required to achieve significant value creation is 4%
  - ― NSSOL's cost of capital is assumed to be approximately 8.4%, so the hurdle rate with the additional margin is assumed to be approximately 12.4%

- **The 3 potential directions for reinvestment are as follows:**
  - ― Investing in existing product market areas:
    - ✓ Investing in sales origination / R&D including software development in existing areas / M&A to accelerate growth and acquire capabilities in existing areas
  - ― Investing in new areas:
    - ✓ Compared with its competitors, NSSOL has the potential to diversify in areas other than its "core business," SI
    - ✓ Some potential diversification options include IT consulting, in-house software development, outsourcing and the international market
    - ✓ When determining how to diversify, NSSOL should decide based on quantitative analysis from the two perspectives of "where to compete" and "how to win"
  - ― Buying back shares:
    - ✓ If the market valuation is below its intrinsic value, acquiring treasury stock enhances the intrinsic value per share

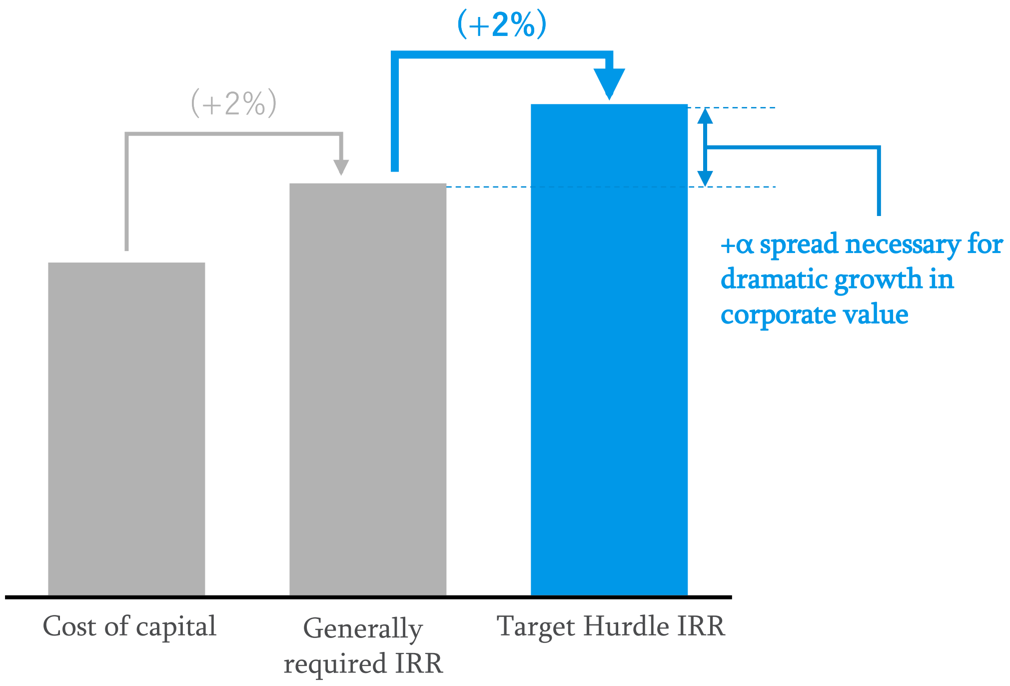
- **In implementing these strategies, we believe that strict discipline is necessary to develop a system that allows the Company to maximize its corporate value**

The hurdle rate required to avoid damaging corporate value and to achieve sustainable and compounded corporate value growth is the cost of capital + 4%

Generally, the return required to create value is the cost of capital ＋ 2%[1]

- Mr. Ryohei Yanagi (visiting professor at Waseda University) **interviewed a large number of global investors and found that the required level of the equity spread in value creation is "generally around 2%"**
- Therefore, Mr. Yanagi stated that the investment selection criteria is "cost of capital +2%", in other words, an IRR spread of 2%
- In addition, the investment criteria of Eisai Co., Ltd.'s **includes an IRR +2%** over the course of Mr. Yanagi's tenure of approximately 10 years as the CFO, **and Eisai Co., Ltd has gained the support of investors around the world**

We believe that an IRR of cost of capital + 4% or more is a reasonable hurdle rate for achieving dramatic growth in corporate value



NSSOL's cost of capital is approximately 8.4%

- There are several calculation methods for a company's cost of capital. It is common to **calculate the weighted average of the cost of equity and debt based on the capital structure**

  – $WACC$ = Cost of equity × $\underbrace{\text{[Market capitalization/ (Market capitalization + Net debt)]}}_{\substack{\text{Capital structure} \\ \text{(Numerator: Market capitalization)}}}$ + Cost of debt × $\underbrace{\text{[Net debt/ (Market capitalization + Net debt)]}}_{\substack{\text{Capital structure} \\ \text{(Numerator: Net debt)}}}$ × (1- Effective tax rate)

- However, NSSOL is in a net cash position, and NSSOL is effectively raising capital solely from shareholders. Therefore, **the cost of capital for NSSOL is equivalent to the cost of equity**

- Based on the average of the 3 calculation methods, **we calculate NSSOL's cost of equity to be 8.4%.** Based on this, **we assume NSSOL's cost of capital is also 8.4%**

  — Share price basis: 9.9% (p.73)

  — Questionnaire basis: 8.0% (p.74)

  — CAPM basis: 7.4% (p.75)

We assume that NSSOL should set its hurdle rate at 12.4%

1 Investing in existing areas: Invest in talent aquisition, R&D and M&A so that the IRR exceeds the hurdle rate

Raise funds for growth investments by improving profits and cash flows through the implementation of 3D's recommended measures

The profit impact is equivalent to five years of the base case. The synergies between each measure are not included in the tentative calculation

Source of investment funds and use of funds (1 billion yen)

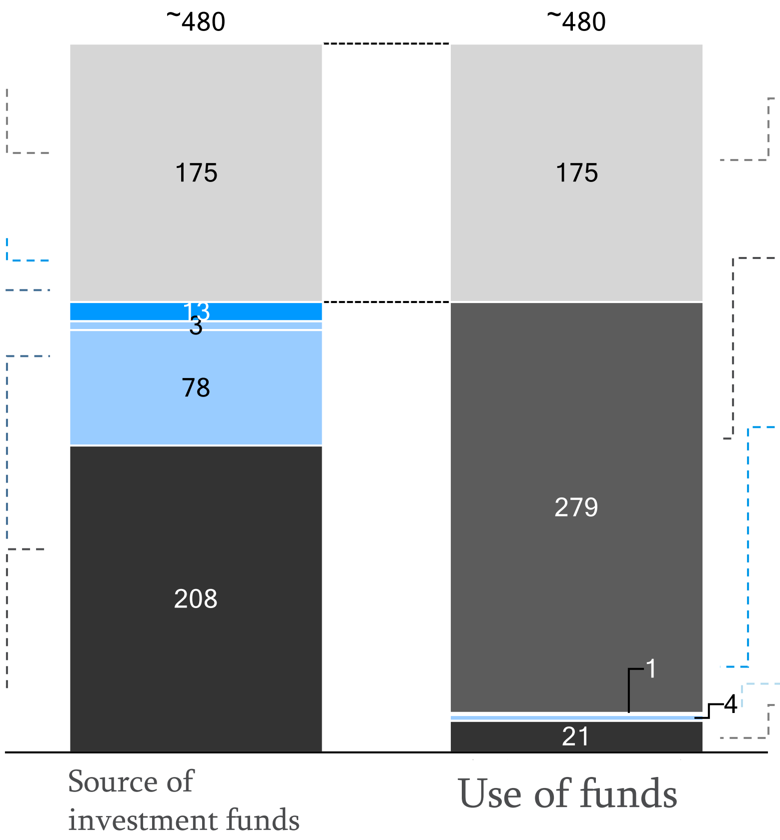
Non-business assets
FY23/3
Deposits paid, corporate bonds, stocks, shares, etc.

Profit from development of new domestic /overseas steel manufacturer customer bases
Effect of EBITDA measures x 5 years
(The first year is assumed to be for start-up at zero revenue)

Improvement of CCC
Cash conversion cycle
Amount of improvement
(impact assuming FY23/3 sales)

Additional profit from unit price and profit improvement measures
(Other than from development of steel manufacturer customer bases)
Total effects of EBITDA measures x 5 years

EBITDA of existing businesses[1]
FY24/3 EBITDA x 5 years



Other growth investments
(Where non-business assets are included as funding)

Other growth investments
(Where non-business assets are not included as funding)

Initial cost of development of domestic/overseas steel manufacturer customer bases
Estimated cost of initial year recruitment and training
(Overseas only) Base start-up costs

Initial cost of unit price and profit improvement measures
Retirement allowance and head office relocation cost for the optimization of headcount in general management

CapEx of existing business FY 22/3-24/3
CapEx average x 5 years

The proceeds can be allocated to growth investments for high IRR

Potential targets in existing areas:

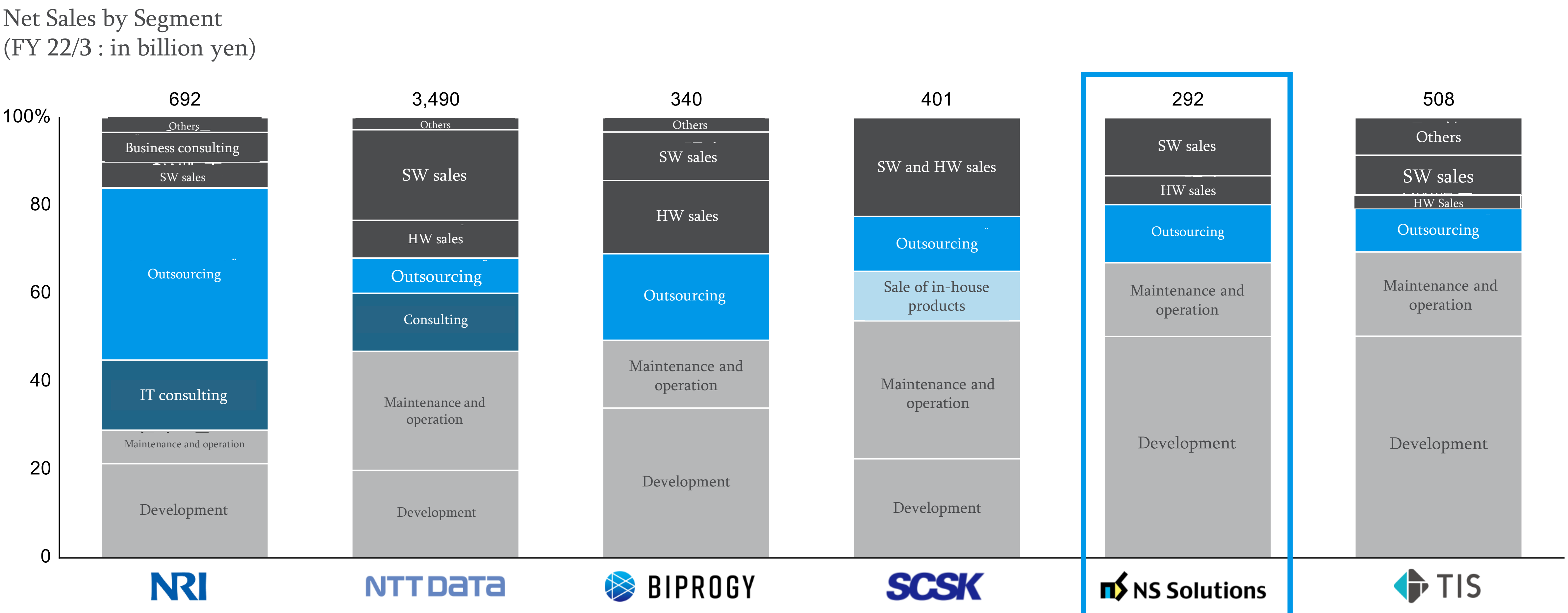
- **Invest in sales origination** to achieve further sales expansion
- **R&D investment** in software development in existing fields
- **M&A** to accelerate growth and acquire capabilities in existing fields

Potential targets in new areas:

- IT consulting
- Shareware developed in-house
- Outsourcing
- Overseas

Source: Company IR, literature research, interviews with market participants
Note: [1] Operating profit for the fiscal year ending March 2024 is calculated by adding the depreciation and amortization of 661 million yen for the fiscal year ending March 2021 before the application of IFRS

NSSOL can diversify in areas other than SI more effectively than its competitors



	NRI	NTT DATA	BIPROGY	SCSK	NS Solutions	TIS
Non-development and Maintenance ratio	71%	53%	51%	46%	33%	30%
Overseas ratio	18%	29%	N/A	N/A	Less than 3%	N/A

Source: Company IR, interviews with market participants

2 There are several possible options for NSSOL to diversify its product / service offering

Main options in new areas:		IT consulting	In-house developed software	Outsourcing	Overseas expansion (Non-Steel Companies)
		← Expansion of business areas →			← Expansion of market →
Market attractiveness	Market size (2022)	0.4 trillion yen	3.0 trillion yen	2.8 trillion yen	-
	Market growth rate ('22-'27)	6%	9%	3%	-
	General gross profit margin	~30-40%	~20-40%	~20-30%	-
Attractiveness of option for NSSOL		**High** *"NSSOL has knowledge of both the **industry and infrastructure stream** necessary for IT consulting, so it should be easy to **make use of NSSOL's current strengths.**"* Undisclosed	**Medium** *"**We have knowledge of software development**, but our strength is in customization, and **we have less knowledge than other companies in developing general-purpose software** that can be sold as packaged software."* Undisclosed	**Medium** *"While we are currently providing **outsourcing services that emphasize customization**, but recently, **there has been an increase in competitors that emphasize cloud technology**, and we are struggling to grow."* Undisclosed	**Low / Medium** *"In Japan, the ability to flexibly respond to customer requests and provide **"customization" is valued**, but overseas, **best-in-class products are preferred**, and it seems that **NSSOL's strengths are not as well-received.** In addition, **there is a shortage of personnel who are proficient in languages.**"* Undisclosed

Source: Company IR, IDC, interviews with market participants
Note: For In-house developed software, the software market size is displayed excluding the stem infrastructure

3 When the market valuation is below intrinsic value, buying back shares increase the intrinsic value per share

Share Value per Share

Treasury Share Acquisition

- **If the market value is lower than the intrinsic value,** acquiring treasury share **increases the intrinsic value per share**

Intrinsic Value 100 billion yen [Variance between Intrinsic Value and Market Value 50 billion yen + Market Capitalization 50 billion yen] ÷ Total Number of Shares Outstanding 100 million shares = Intrinsic Value per Share **1,000 yen** (Share Price of 500 yen)

treasury share acquisition of 10 billion yen (500 yen, 20 million shares)

Intrinsic Value 90 billion yen [Variance between Intrinsic Value and Market Value 50 billion yen + Market Capitalization 40 billion yen] ÷ Total Number of Shares Outstanding 80 million shares = Intrinsic Value per Share **1,125 yen** (Share Price of 500 yen)

Dividends

- The intrinsic value per share does not change before and after the dividends

Intrinsic Value 100 billion yen [Variance between Intrinsic Value and Market Value 50 billion yen + Market Capitalization 50 billion yen] ÷ Total Number of Shares Outstanding 100 million shares = Intrinsic Value per Share **1,000 yen** (Share Price of 500 yen)

Dividends of 10 billion yen

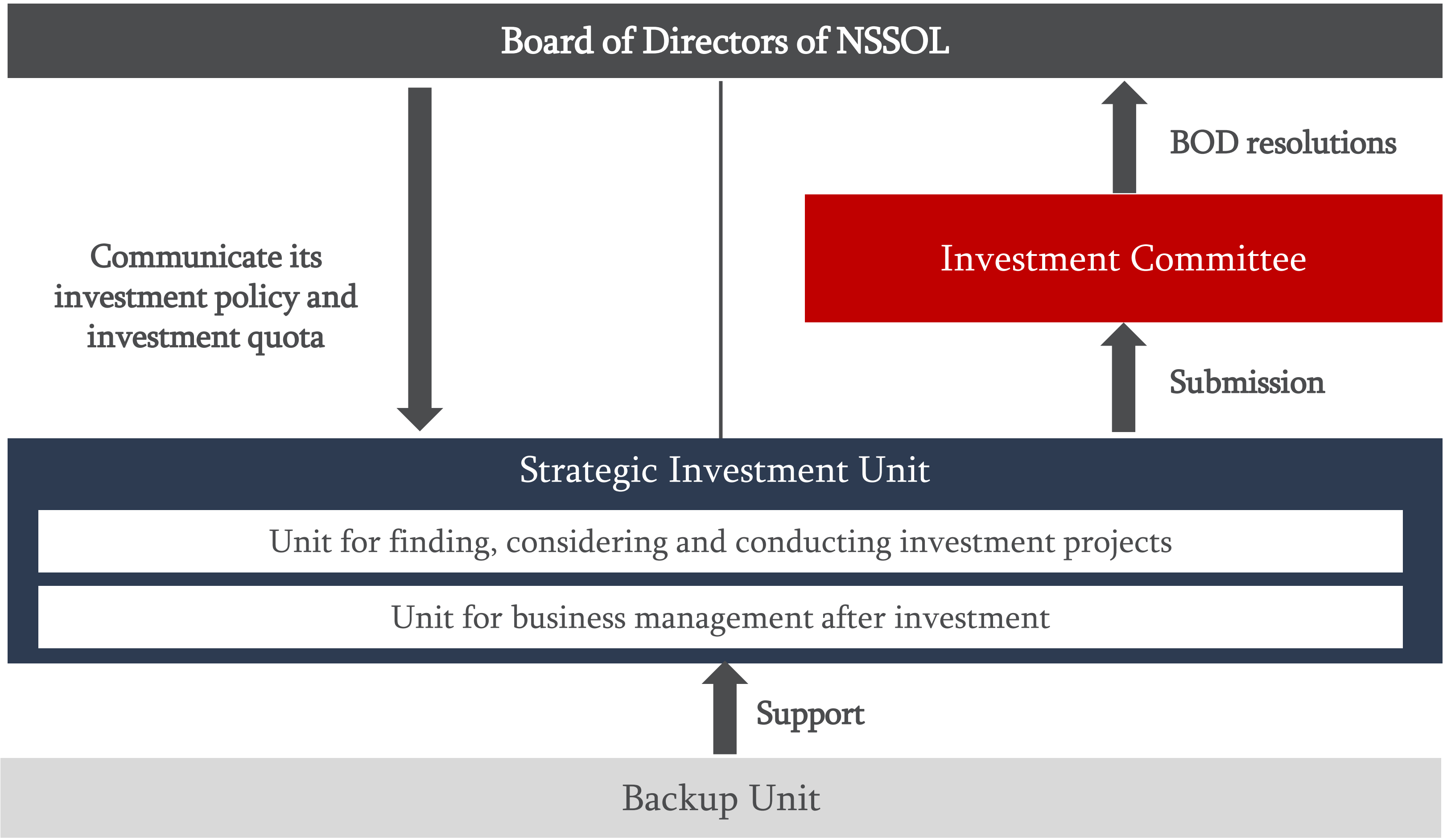
Intrinsic Value 90 billion yen [Variance between Intrinsic Value and Market Value 50 billion yen + Market Capitalization 40 billion yen] ÷ Total Number of Shares Outstanding 100 million shares = Intrinsic Value per Share **1,000 yen** (900 yen + Dividends 100 yen) (Share Price 400 yen + Dividends 100 yen)

Taxation System

- As for treasury share acquisition, only the portion falling under the deemed dividend is subject to taxation
- As for the dividends, the entire amount thereof is subject to taxation

It is essential to establish the necessary framework to ensure strict investment discipline when executing reinvestments

Visualization of Investment Organization



- **Determine an investment policy and investment quota** that is set to maximize corporate value
- **Examine** investment projects **thoroughly to determine** whether the IRR exceeds the hurdle rate; consider other quantitative and qualitative risks, returns and synergies
- **Conduct sourcing and due diligence of investment projects** based on the investment policy and investment quota
- Execute **synergy creation, value enhancement and ongoing monitoring** with investment partners
- **Responsible for back-office operations such as accounting and legal operations**

Conclusion

Conclusion

- **NS Solutions Corporation ("NSSOL") suffers from many weaknesses, including missed growth and profitability opportunities, as well as an inefficient balance sheet**

1 Improvement in Profit & Loss ("P&L") statement (profit maximization):

1. Review of pricing for Nippon Steel
2. Review of pricing for other customers
3. Reallocation of resources away from low-return projects
4. Reduction in outsourcing costs of subcontractors
5. Increase in offshore share of outsourcing
6. Reduction in headcount and personnel expenses
7. Reduction of other costs
8. Development of domestic steel manufacturer customers
9. Development of overseas steel manufacturer customers

— These improvement measures are expected to increase profits by approximately 19 billion yen (16.7 billion yen[1] after deducting the impact of price up FY25/3)

2 **Improvement in balance sheet (maximization of investment capital):**

1. Redeployment of cash deposits that fall below the cost of capital
2. Sale of strategic shares and utilization of proceeds from selling Recruit shares
3. Sale of other securities that return below the cost of capital
4. Improvement of cash conversion cycle

— These improvement measures are expected to yield 184.4 billion yen in capital

3 **Improvement in capital allocation (maximization of value through reinvestment):**

— Investing in sales origination, R&D and M&A within existing product market areas

— Investing in new areas / diversification

— Buying back shares

- **In our view, the root cause of these weaknesses is NSSOL's lack of independence from its parent company, Nippon Steel. This is evidenced by:**
  - — A Board of Directors that is dominated by directors from Nippon Steel. Proxy advisory firms ISS and Glass Lewis have criticized the lack of independence of NSSOL's Board
  - — The fact that 40% of NSSOL's net assets are deposited with Nippon Steel at an interest rate of 0.2%, which is below NSSOL's cost of capital. This enables Nippon Steel to secure low-cost financing at the expense of NSSOL's corporate value and the interests of its minority shareholders
  - — Preferential pricing for Nippon Steel in its contracts with NSSOL, which undermines NSSOL's profitability

- **Deficiencies in NSSOL's governance framework have led to a lack of management focus on maximizing corporate and shareholder value, resulting in unresolved issues**

NSSOL should improve its corporate governance and seek full independence from Nippon Steel so that it can maximize corporate value

Note: [1] The effects of price increase measures already undertaken by the company have been deducted;"¥1.7 billion gross profit improvement from value-added OP and others through FY25/3 Q3" ×"¥3.8 billion gross profit improvement for FY25/3 (excluding bonus reserve differences)" ÷"¥3.1 billion gross profit improvement through FY25/3 Q3" =Gross profit improvement of ¥2.1 billion attributable to annual price increase impact has been deducted.

Appendix

Estimated cost of capital shareholders except from NSSOL: Share Price Standard
The cost of equity of NSSOL calculated based on the share price is 9.9%

- Assuming that NSSOL's share price is the present value of future EPS, it is possible to express it using the formula below, and we can estimate NSSOL's cost of equity based on NSSOL's PER and growth rate
- As of the end of May 2024, NSSOL's PER is 19.0x. Assuming that the growth rate is 4.7%[1], NSSOL's cost of equity recognized by the capital market is 9.9%

Formula

$$\text{Share price} = \frac{EPS}{r-g} \quad \rightarrow \quad PER = \frac{1}{r-g}$$

$$r = \frac{1}{PER} + g$$

$$g = r - \frac{1}{PER}$$

PER: Calculated based on the ratio of the market consensus EPS as of the end of March 2024 to the share price as of the end of July 2024

r: The cost of equity for individual companies

g: Growth rate calculated by reference to the market growth rate

*Assuming a clean surplus relation and a steady state

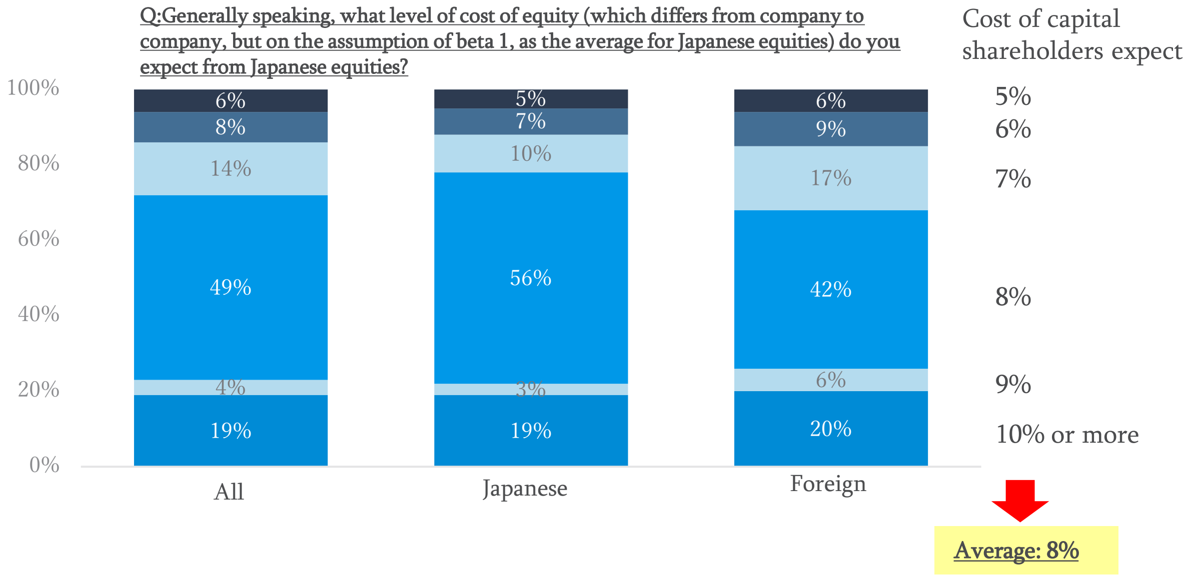
Note: [1] See the sales CAGR of FY15/3-FY24/3 for the growth rate

Cost of Capital Based on Investor Expectation

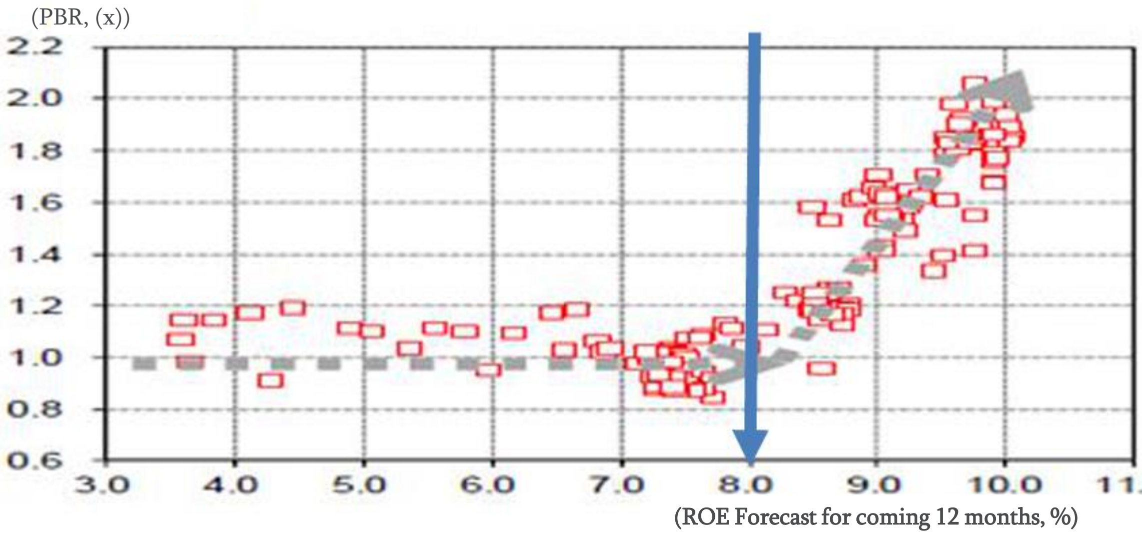
- According to a questionnaire conducted in 2020 for 144 investors, the average cost of capital that investors expect from Japanese equities is 8%
- Considering that NSSOL's β is 0.95 (Appx Pg190), and the Bloom Principle that the overall market β converges to 1.0, the cost of capital shareholders expect from NSSOL should be around 8.0%, the same cost of capital shareholders expect from Japanese equities
- In addition, the minimum level of ROE recognized by global investors is 8%. NSSOL, which has decided to list on the Prime Market [2] with a focus on constructive dialogue with global investors, should assume that the cost of capital shareholders expect is at least 8.0%

— *"Although the level of the cost of capital for each company differs, as a first step to be recognized by global investors, each company should commit to achieving ROE which exceeds at least 8%. Of course, this is just a "bare minimum", so once a company achieves a ROE of 8% or more, or if a company has already achieved this, they should aim for an even higher level. "*[3]

Cost of capital investors typically expect from Japanese equities[1]



In fact, since companies tend to be evaluated positively by investors for their cost of equity when their ROE exceeds 8%, 8% represents one benchmark for the cost of capital



[Source] Theory and Practice of Cost of Capital [Note] The 2004 forecast for TOPIX is the 12-month forecast consensus from I/B/Y year onwards (201415 ROE year and PBR are plotted)

Note: [1]"Perspective on Capital Market on Value Creation of Japanese Companies 2021" Ryohei Yanagi July 2021; [2]"Outline of Market Restructuring" Japan Exchange Group; [3]Ito Report

Estimated Cost of Capital Based on Investor Expectation: CAPM Standard
The cost of equity of NSSOL based on the CAPM Standard is 7.4%

cost of equity = rf+β(rm−rf)

Variable	3D
rf Risk Free Rate	Average yield over the past 10 years of 10-year Japanese government bond *As of the end of May 2024 ▪ 0.187%
β Beta	NSSOL’s β against TOPIX over the past 5 years *As of the end of May 2024 ▪ 0.95
rm – rf Market Risk Premium	Estimated by comprehensively considering the market risk premium calculated using the historical method, implied method and survey method. ▪ rm – rf = 7.7%
re **Cost of Equity**	**7.4%**

Estimated Cost of Capital Based on Investor Expectation: CAPM Standard
Presumption of risk-free rate (rf)

- The risk-free rate refers to the "non-uncertain yield" determined by market interest rates, where the final yield on government bonds is generally used
- When evaluating corporate value, such as shareholder value, companies subject to evaluation risk-free of going concern, so it is common to use the yield on long-term government bonds with longer redemption periods, and in Japan, 10-year government bonds are generally used to calculate the risk-free rate
- The following are primary methods for calculation of the risk-free rate using 10-year government bonds:

Calculation Method	Numbers Used	Basis
Method that uses market yield as of the evaluation	▪ 1.08% As of the end of May 2024	The risk-free return that is expected at the time of evaluation that determines investment should be used ▪ *"The risk-free rate is a future estimate at the time of evaluation, so the final yield at the time of evaluation should be used instead of the past average yield prior to the time of evaluation"*[1]
Average yield for 10-year government bonds over the past 10 years, starting from the date of evaluation	▪ 0.187% Starting from the end of May 2024	Based on the premise of long-term investment, the average value should be used, not at the time of evaluation, but from the time of evaluation, in a way that mitigates the impact of temporary policies ▪ *"It is highly likely that the yield trend of 10-year bonds has been affected by significant changes in monetary policies, such as the surge in money supply implemented in Japan in the last five years. [Omitted] Based on this idea, it may be possible to select the average value for the past 10 years, which is the maturity period of 10-year government bonds."*[2]

- In light of the following comments and results of the questionnaire shown in the following section, when evaluating NSSOL as a listed company (i.e., a going concern) from a mid- and long-term perspective, "average 10-year government bond yield over the past 10 years, starting from the time of evaluation" should be used as the risk-free rate, in order to reflect the long-term risk-free rate free from effects of temporary policies
  - *"If the cost of capital is calculated for the purpose of management control in a going concern, risk free interest rate should be estimated after removing the effects of temporally policies"*[2]
  - *"In the case of M&A, objectivity should be ensured by selecting a value at the time of evaluation"*[3]

Note: [1]"Cost of Capital Management for Enhancing Corporate Value" The securities Analysis Association of Japan; [2]"Corporate Value Management" Kunio Ito; [3]"Enhancement of Corporate Value and Cost of Capital" Seminar on Enhancement of Corporate Value (held by Tokyo Stock Exchange) Tetsuyuki Kagaya (Hitotsubashi University)

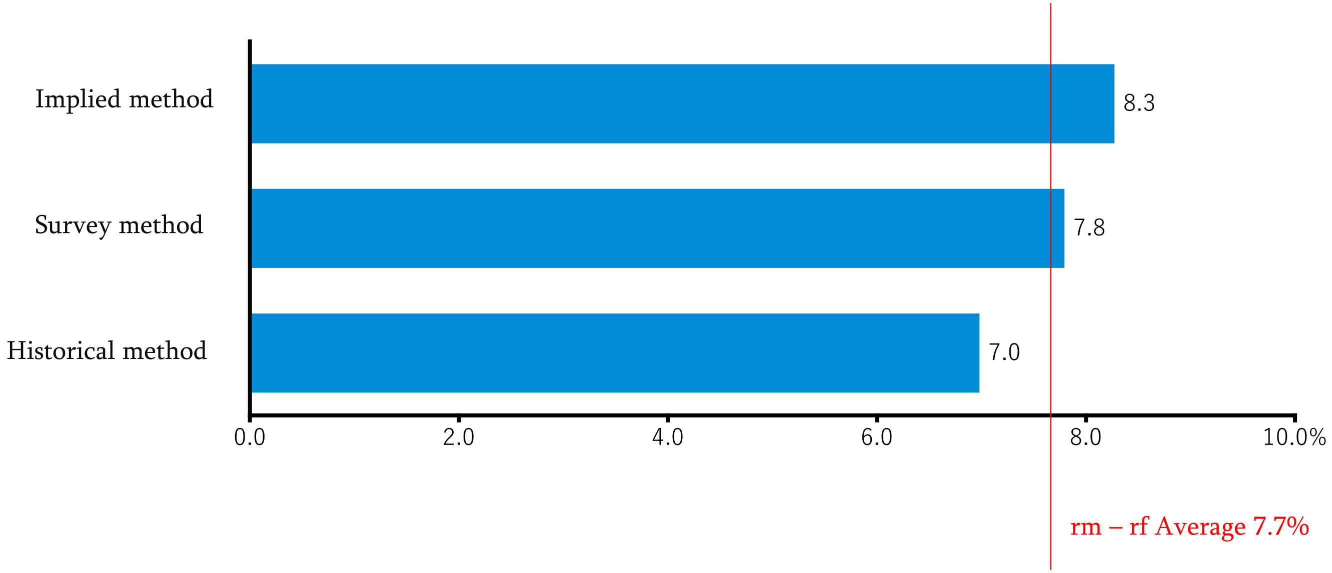
Estimated Cost of Capital Based on Investor Expectation: CAPM Standard Presumption of β (beta)

- β is a measure of sensitivity of a company's and industry's return on investment to the overall stock market's return of investment
- TOPIX is used as the relevant index for the calculation of β (2019/5/31-2024/5/31)

Estimated Cost of Capital Based on Investor Expectation: CAPM Standard
Presumption of market risk premium (rm-rf)

- The market risk premium indicates how much additional return investors expect when investing their funds in stocks compared to risk-free assets.
- In principle, the following methods [1] are used for the market risk premium and we estimate the market risk premium for Japanese stocks comprehensively based on each of those methods
  - — Historical method: Estimated from the past stock market returns
  - — Implied method: Calculated backward from the market price
  - — Survey method: Based on a survey of institutional investors who are actually in charge of investing
- The market risk premiums for Japanese stocks calculated based on each method are as follows, and we use 7.7% as the market risk premium

Market risk premiums for Japanese stocks calculated by each method



Note: [1] "Corporate Value Management" Kunio Ito

Estimated Cost of Capital Based on Investor Expectation: CAPM Standard
Presumption of market risk premium (rm-rf) (cont.)

Historical method

- The market risk premium is calculated by subtracting the simple average of the annual income return of the risk free assets (10-year Japanese government bonds) for each year in a specific period from the simple average of the annual return of the stock market (TOPIX) for each year in the same period. Regarding the period, it is recommended that the data be calculated over as long a period as possible to mitigate the effects of phenomena specific to a particular period
  - — *"The longer the measurement period, the more number of samples, thereby improving the reliability of the estimates. Historical ERPs for a period of 30 years or more or, preferably, 50 years or more (encompassing multiple economic, business, and market cycles) are required."*[1]
- According to the market risk premium data calculated using the historical method provided by Ibbotson Associates, the market risk premium for Japan estimated from the longest period is 7.0% (which is the average market risk premium calculated by setting the start of measurement as each year from 1952 to 1961)
  - — *"Many investors, corporate valuers, certified public accountants, and tax accountants in Japan who use this report (Ibbotson Associates) use historical ERPs near the longest period for their corporate valuation."* [1]

Implied method

- Based on the presumption that the stock price is the present value of future EPS, the following formula holds true, and presuming a PER of 15.4x[2] and a growth rate of 2.0%[3] as of the end of May 2024, the cost of capital that the market expects for Japanese stocks as of the end of May 2024 is 8.48%, and the market risk premium after deducting the risk free rate of 0.187% as of the end of July 2023 is 8.29%
  - $Stock\ price = \frac{EPS}{r-g} \rightarrow PER = \frac{1}{r-g} \rightarrow r = \frac{1}{PER} + g$

PER: Regarding TOPIX, calculated based on the market consensus EPS (Y+1) as of the end of May 2024 (=PER15.4x)
r: TOPIX's cost of equity
g: Growth rate calculated with reference to the actual growth rate, etc.
※Assuming a clean surplus relationship and a steady state

Survey method

- According to a survey of investors and business companies conducted by the Securities Analysts Association of Japan[4] and the Japan Investor Relations Association[5], respectively, the average market risk premium is recognized as 6.32% and 6.11%, respectively
- In addition, it is pointed out in the Ito Report[6] that in a global investor survey, the average response to the question "What is the cost of equity you would generally expect for Japanese stocks?" was 8.0%. From the perspective that this 8.0% level represents the rate of return investors expect from Japanese stocks over the medium to long term, by deducting the average yield of 10-year government bonds for the past 10 years based on the end of July 2023 of 0.187% as the risk free rate, the market risk premium is calculated as 7.81%

Note: [1]"Management of Cost of Capital to Enhance Corporate Value," Securities Analysts Association of Japan; [2]Bloomberg; [3]The growth rate of 2.0% is considered to be a reasonable level compared to the TOPIX actual EPS annual average growth rates of 10.7%, 8.2%, and 7.7% since 2000, 2010, and 2015, and the target inflation rate of 2.0%, based on the end of December 2021, excluding the impact of COVID; [4]"Survey of IR Activities," Japan Investor Relations Association; [5]"Survey on Cost of Capital and Corporate Value Enhancement," Securities Analysts Association of Japan; [6]"Theory and Practice of Cost of Capital ~ Sustainable Enhance of Corporate Value," Dr. Ryohei Yanagi

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