



News Release

August 3, 2021

Nippon Steel Corporation

Notice regarding Partial Disposition of Tokyo Rope Mfg. Co., Ltd.'s Shares (Planned)

On January 21, 2021, the board of directors of Nippon Steel Corporation (“NSC”) adopted a resolution to acquire shares of common stock of Tokyo Rope Mfg. Co., Ltd. (“Tokyo Rope”) (“Tokyo Rope Shares”) through a tender offer (the “Tender Offer”) under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended). NSC commenced the Tender Offer on January 22, 2021, and as a result of the completion of the Tender Offer on March 8, 2021, NSC came to own 3,236,535 Tokyo Rope Shares (ownership ratio after the Tender Offer (Note): 19.91%). After the completion of the Tender Offer, the Japan Fair Trade Commission (the “JFTC”) indicated that a joint relationship would be formed between NSC and Tokyo Rope. NSC hereby announces that following discussions with the JFTC, NSC has come to a decision to sell part of its Tokyo Rope Shares.

(Note) The ratio of NSC’s Tokyo Rope Shares against 16,255,173 shares, which is the total number of issued shares (16,268,242 shares) as of September 30, 2020 stated in the Second Quarterly Report for the 222nd Fiscal Year submitted by Tokyo Rope on November 13, 2020, reduced by the number of treasury shares (13,069 shares) owned by Tokyo Rope as of the same date (rounded off to two decimal places).

1. Indication by the JFTC

The Act on Prohibition of Private Monopolization and Maintenance of Fair Trade (Act No. 54 of 1947; as amended; the “Antimonopoly Act”) and the Guidelines to Application of the Antimonopoly Act Concerning Review of Business Combination (the “Application Guidelines”) stipulate that when the ratio of the total number of voting rights pertaining to shares after share acquisition does not exceed 20%, prior notification to the JFTC is not required and that when the ratio of the total number of voting rights pertaining to shares after share acquisition exceeds 10%, the JFTC determines whether there is “a relationship in which two or more companies operate a business in a united form, whether fully or partially, by shareholding, mergers or other transactions” (a “joint relationship”), taking into account, among other factors, “the rank as a holder of voting rights, differences in and distribution of the ratios of voting rights held among the holders, and other relationships between holders” and if such a relationship is found, the JFTC reviews, on its own authority, whether the joint relationship “substantially restrains competition in any particular field of trade” (Article 10, paragraph (1) of the Antimonopoly Act) (Note).

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The Tender Offer conducted by NSC made its ownership ratio of Tokyo Rope Shares 19.91%. Subsequently, after discussions with NSC, Tokyo Rope submitted a proposal concerning changes to all of its directors and some audit & supervisory board members to its annual shareholders meeting on June 25, 2021, and the proposed changes were implemented by resolution at said shareholders meeting. NSC set the maximum number of shares to be purchased in the Tender Offer taking into account considerations including, among others, maintaining the independence of Tokyo Rope's management by not making Tokyo Rope an affiliate of NSC accounted for by the equity method. Consequently, the ratio of voting rights of NSC after the Tender Offer was 19.91%, and the Tender Offer was therefore not subject to prior notification requirements. After the completion of the Tender Offer, the JFTC indicated, on the premise of the ratio of voting rights held by NSC after the Tender Offer having exceeded 10% and taking into account the fact that the changes to the directors and audit & supervisory board members were proposed at the annual shareholders meeting of Tokyo Rope and were implemented by resolution at said shareholders meeting, that a joint relationship would be formed between NSC and Tokyo Rope.

(Note) The Application Guidelines stipulate that “when the ratio of the total number of voting rights pertaining to shares held by companies, etc. that belong to the group of combined companies to which the shareholding company belongs to all of the voting rights of the share issuing company exceeds 50%” and “when the ratio of the total number of voting rights pertaining to shares held by companies, etc. that belong to the group of combined companies to which the shareholding company belongs to all of the voting rights of the share issuing company exceeds 20% and the said ratio stands alone as the top-ranked,” “a joint relationship ...[will] be formed, maintained or strengthened,” which requires a business combination review; in addition, when “the ratio of voting rights held is 10% or less or and the shareholding company is not ranked among the top three holders of voting rights,” the case “does not require a business combination review”; on the other hand, in other cases, although “it is considered that most of the cases do not require business combination review in general,” the JFTC determines whether there is a joint relationship by taking into account, among other factors, “the rank as a holder of voting rights, differences in and distribution of the ratios of voting rights held among the holders, and other relationships between holders”; if such a relationship is found, the JFTC reviews, on its own authority, whether the joint relationship “substantially restrains competition in any particular field of trade” (Article 10, paragraph (1) of the Antimonopoly Act).

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2. NSC's decision and response

In conducting the Tender Offer, NSC explained that the purpose thereof was to contribute to the recovery and improvement of Tokyo Rope's corporate value by increasing NSC's commitment to improvement of Tokyo Rope's corporate value and encouraging Tokyo Rope to restructure its management and governance systems, which would be necessary to recover and improve its corporate value, while maintaining the independence of its management, in view of the situation where Tokyo Rope, despite its management issues including dysfunction of its governance system, had not taken any effective measures against them.

After the completion of the Tender Offer, aiming for restructuring the management and governance systems of Tokyo Rope, which would be necessary to realize the recovery and improvement of its corporate value and of shareholders' common interests as quickly as possible, NSC, as its shareholder, had earnest discussions with Tokyo Rope's management regarding the appointment of new internal persons as directors of Tokyo Rope and a structure for the board of directors which would ensure independence and diversity. Following discussions with NSC, Tokyo Rope decided on its own to submit to its annual shareholders meeting a proposal concerning changes to all of its directors and some audit & supervisory board members, and the proposed changes were implemented by resolution at said shareholders meeting. As a result, Tokyo Rope's management team fundamentally changed through a generation change, its corporate governance was strengthened, and a majority of its board of directors became independent outside directors, ensuring diversity.

Based on the JFTC's indication, NSC proposed to the JFTC that it would take the following measures (1) through (3) in relation to the Tokyo Rope Shares held by NSC. This proposal was made taking into account considerations including, among others, the following: (i) part of the main purpose of the Tender Offer, namely, restructuring of Tokyo Rope's management and governance systems, which would be necessary to recover and improve Tokyo Rope's corporate value, has been achieved with the support of other shareholders, as stated above; (ii) future recovery and improvement of Tokyo Rope's corporate value is considered feasible with NSC's assistance stated in 3. below, regardless of the number of Tokyo Rope Shares held by NSC; and (iii) NSC has continued to believe that independence of the Tokyo Rope's management should be maintained, and that if Tokyo Rope can fully demonstrate its inherent technological capabilities and brand power, 'its corporate value can be recovered and improved on its own, and considers that the recovery and improvement of Tokyo Rope's corporate value will be facilitated by ensuring, in a situation where no joint relationship is considered to exist between NSC and Tokyo Rope, the flexibility of Tokyo Rope's management and avoiding possible delays in or problems with the swift rebuilding of Tokyo Rope's business.

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- (1) NSC will sell 1,625,500 Tokyo Rope Shares so that the ratio of voting rights of Tokyo Rope Shares held by NSC should be 10% or less such that “a joint relationship is not formed, maintained or strengthened so that ...[it] does not require a business combination review” as stated in the Application Guidelines.
- (2) NSC will sell Tokyo Rope Shares until the number of shares sold reaches the number stated in (1) above, where the sale price would be 1,500 yen (which was the Tender Offer Price) or more per share and when and in such amounts that the stakeholders of Tokyo Rope, including shareholders, business partners, and employees, as well as the securities markets, could reach an understanding that the recovery and improvement of Tokyo Rope’s corporate value, which was the ultimate purpose of the Tender Offer, has been achieved, in as short a time as possible.
- (3) Until the sale of the number of shares stated in (1) above is completed, NSC will exercise voting rights at Tokyo Rope’s shareholders meeting only to the extent that the number of voting rights exercised by NSC will be 10% or less of the number of voting rights (excluding the number of voting rights not exercised by NSC) of all shareholders as of the end of the previous fiscal year, and will refrain from exercising voting rights beyond that extent, provided that, after the sale of Tokyo Rope Shares, NSC may exercise its voting rights upon instructions of a new shareholder if the new shareholder is unable to exercise the voting rights by reason of record date.

3. NSC’s assistance for Tokyo Rope

As stated above, based on the JFTC’s indication, NSC will sell Tokyo Rope Shares under the conditions in 2. above. As the largest shareholder of Tokyo Rope, which position NSC continues to maintain, and as the largest base material supplier and a joint development partner, NSC hereby reconfirms that NSC will cooperate with Tokyo Rope, which commenced new management and governance systems following its shareholders meeting held in June this year, in its efforts to appropriately address management issues and to recover its competitiveness in the markets in and outside Japan and improve its business results, and will contribute to the recovery and improvement of Tokyo Rope’s corporate value.

4. Impact on Business Results

The impact of this matter on NSC’s business result will be minor.

End

For inquiries

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