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Q & A on the 63rd Annual General Meeting of Shareholders

Please provide an update on the progress of the two domestic M&A projects conducted in 2024. Additionally, please explain the differences between domestic and overseas M&A in terms of difficulty and contribution to business performance, as well as future opportunities for domestic M&A.

We have appointed several directors from us to the two acquired companies, Yuasa Consultants and Hiroken Consultants, to strengthen their management systems, while promoting initiatives aimed at stable operations and growth. Currently, we believe that post-M&A progress has been proceeding smoothly.

Regarding overseas M&A, compared to domestic M&A, there are some challenges in the secondment of our executives and employees. Under these circumstances, the Waterman Group has been achieving growth with appointing directors from us and conducting regular monitoring of its management situation.

As for future domestic M&A involving consulting engineer firms, we will continue to consider targets mainly in the areas indicated in the mid-term management plan and intend to explore opportunities by evaluating specific projects as they arise.

Please explain the details of the property business added to the Articles of Incorporation and the specific reasons for the impairment loss of the employee dormitory, as well as the possibility of future real estate-related impairments.

The property business added to the Articles of Incorporation is not intended to buy or sell real estate, but to provide real estate consulting services related to urban redevelopment through CTI Group.

The impairment loss recorded this term was mainly due to the reclassification of the employee dormitory in Saitama City as dormant assets, as well as losses from the waiver of receivables for a group company and the revaluation of our shareholdings.

While we own several real estate properties, we do not anticipate any further impairments at this time.

Please explain the appropriateness from a governance perspective of the Representative Director's participation in the Nomination and Remuneration Advisory Committee. Additionally, please explain your recognition of responsibility of the Representative Director and the executive in charge of international business regarding the management performance following the acquisition of Waterman Group?

At the Nomination and Remuneration Advisory Committee, the company presents draft proposals for the compensation structure. Based on these, the external directors analyse the figures and ratios from an objective perspective and provide their opinions.

Regarding Waterman Group, we are involved in and providing guidance on management decisions and business analysis through the appointment of directors and the secondment of our employees. For the past two to three years, the economic situation in the UK has been changing and rising costs have been impacting its profitability. We are identifying the core issues and are working to improve the situation from the perspectives of SG&A expenses and capital efficiency.

What kind of discussions are taking place in the newly established Corporate Governance Committee?

Also, from the perspective of an external director who has experience as CFO at another company, how do you evaluate overseas M&A?

With the establishment of the Corporate Governance Committee this fiscal year, our board effectiveness evaluation has evolved from a traditional questionnaire-based format into a process of interviews and analysis conducted by external consultants. This allows us to organise governance challenges and link them to our future actions.

For overseas M&A, the Post-Merger Integration (PMI) process is essential because of the limitations of pre-acquisition due diligence. For Waterman Group, we are working to enhance corporate value by appointing directors to provide management oversight, while also utilising the secondment of our employees to promote technical collaboration.

Regarding the operating income targets in the Mid-Term Management Plan 2027, how do you intend to achieve them under the assumptions of cost management and increased headcount?

Additionally, please provide an update on the results and progress of each initiatives in our overseas business.

Our cost of sales ratio for 2025 decreased by 0.2 percentage points compared to the previous year, reflecting an improvement in productivity. We aim to achieve operating income targets by continuing to improve productivity and the cost of sales ratio through the use of DX and generative AI, as well as controlling SG&A expenses. While our headcount is expected to increase, we intend to improve overall profitability by reducing working hours through productivity improvements.

CTI Engineering International Co., Ltd. (CTII) is working to reduce its dependence on ODA by establishing local offices and pursuing projects from international organisations such as the World Bank and ADB, as well as from local governments. As a result, about half of CTII's Orders Received are for non-ODA projects. As for Waterman, we are addressing the improvement of profitability as a key issue by proceeding with businesses integration and the reduction of administrative expenses.

How do you position DX within your management strategy? Additionally, please explain how you intend to secure and develop IT specialists, and how you are preparing for the era of AI?

We are promoting DX strategy based on three key pillars: "Solving social issues through ICT," "Improving productivity," and "Strengthening information security". We have established a dedicated DX promotion organisation to drive these initiatives across the entire company.

Regarding IT specialist, we are focusing on internal development in addition to hiring new graduates and mid-career workers. In light of the advancements in no-code/low-code tools and AI, we intend to emphasise that all division, not limited to specialised engineers, should utilize IT to increase service value, and will leverage its strength as a group of engineers to promote company-wide use of AI.

Our group's human resource composition is centred on engineers, and we recognize that we have a relatively high number of individuals with strong IT literacy, so we do not have major concerns at this time in terms of our capability for AI. Looking ahead, we believe that a key challenge will be whether we can manage and implement AI-driven services as a company-wide system.