

Q&A Summary of Financial Results for FY'26/3 and Medium-Term Management Plan Briefing

The following is a compilation of the main questions received from those who attended the financial results and medium-term management plan briefing. Some of the content has been added or revised to facilitate understanding.

Q. According to the final year of the medium-term management plan targets, I think CAGR of 11.9% and operating income growth of 18.5% are required. This looks very ambitious. However, FY27/3 net sales and operating income forecasts don't reach this CAGR level. Does this mean you expect a high growth rate for four years starting from FY'28/3? Or do you expect a significant change in the growth rates along the way? Please let me know your annual growth picture.

A. In our Medium-Term Management Plan, we position the fiscal year ending March 2027 as a foundational year for launching a new business model.

Specifically, this initiative refers to strengthening the Offering-Based Business. We view the Offering-Based Business as a new business pillar that will drive future growth, and during this fiscal year, we will focus on making strategic investments and laying the groundwork for its steady expansion.

As for our five-year growth trajectory, we plan to spend the first year building a solid foundation, followed by accelerating growth and steadily increasing our growth rate thereafter. By leveraging proposals through the Offering-Based Business, we aim to increase high value-added and highly profitable projects, which will further drive growth in the Next-Generation SI Business. In addition, the expertise and know-how gained through these initiatives will be transformed into assets and utilized in future offering-based proposals, creating a virtuous cycle for sustainable growth.

We have a clear roadmap not only for this fiscal year and next fiscal year, but also for the next five years, and we hope you will look forward to our future growth.

Q. How much are M&A contributions in the medium-term management plan net sales target of JPY30 billion? Are M&A contributions not included?

A. Basically, this net sales target does not include M&A contributions. In short, this target is made based on the assumption of organic growth.

Through the Offering-Based Business, we aim to secure high value-added and highly profitable projects and accelerate growth by expanding the Next-Generation SI Business.

To achieve this, it will be essential to strengthen our capabilities in responding to new technologies and to expand our engineering resources. Accordingly, we will reinforce the foundation for organic growth through investments in human resource development and the assetization of expertise and know-how gained through our business operations. In addition,

we intend to consider M&A from the perspective of further enhancing our engineering resources.

Q. It seems that you have little experience with M&A. Have you already prepared for the execution?

A. While we do not have extensive experience in executing M&A transactions, we have continuously considered M&A as one of the important strategic options for achieving our growth strategy.

We are currently strengthening our M&A capabilities within the Corporate Planning Office and have begun sourcing potential candidates while establishing a framework for decision-making based on strategic fit and synergy creation. In addition, we will collaborate with external experts as necessary to ensure both the quality and speed of execution in our M&A projects.

Q. Please let us know the details of growth investment of JPY3.3 billion.

A. At present, there are no finalized investment projects, and this allocation has been established as a strategic investment framework to support future growth.

We are considering three primary areas for investment. The first is investment in human capital, the assetization of expertise and know-how, and brand enhancement to accelerate the growth of existing businesses. The second is the DX and AI domains, which support our business foundation. The third is M&A aimed at achieving transformational growth.

In particular, the amount of investment required for M&A is expected to vary depending on the timing and scale of individual transactions. Therefore, rather than fixing detailed allocations in advance, we have adopted a structure that allows us to allocate capital flexibly and optimally in response to changing circumstances.

We hope you will view this JPY 3.3 billion allocation as a strategic investment framework that enables us to deploy capital flexibly in line with growth opportunities.

Q. How do you see the impact of Anthropic's Claude Mythos? Do you see it as having more positive or negative implications?

A. We believe that cutting-edge AI such as Claude Mythos has the potential to significantly transform traditional development processes and approaches to security. In particular, we recognize it as a technology that could bring about structural changes to conventional contract-based development models.

At the same time, AI of this kind cannot independently complete business operations. Its true value is realized only when it is integrated into corporate workflows and existing systems. Therefore, we believe that advanced engineering capabilities to support continuous

operation will remain highly important.

With the expectation that the use of AI will continue to expand, we are strengthening our capabilities by combining agile development with AI, including at our Vietnam base. Through these efforts, we are working to enhance our competitiveness as a user and implementer of advanced AI technologies.

While AI such as Claude Mythos can pose certain threats, we see it as an opportunity to increase added value by strengthening our AI-integrated development capabilities. Going forward, we will continue to closely monitor AI trends and strive to utilize and manage these technologies appropriately.

Q. How do you see the timeline for shifting from AI-driven to AI-native development system? In conjunction with this, do you think talent allocation to the Cross-Sector Offering Promotion Office will be accelerated?

A. AI native development is in the limelight, given the most recent client and market environment. We have already received needs and inquiries, and we believe there is potential for overwhelming growth in the future. I also believe that, as technology advances, the boundary between AI-driven and AI-native development may disappear.

We intend to apply different development approaches depending on the characteristics of each project, and will actively adopt AI-native development for scratch development and system replacement projects. On the other hand, for the enhancement and evolution of existing systems, including mission-critical systems, we believe that AI-driven development is the more appropriate approach. In all cases, we will promote these initiatives while carefully addressing the needs of our clients.

We will continue strengthening the organization of the Offering Grid Division, which serves as the core of the Offering-Based Business. At the same time, the expansion of professional talent—including advanced IT engineers and project managers needed to support the growth of projects originating from offering proposals, including AI-related projects—will be addressed primarily within the business divisions responsible for executing Next-Generation SI development.

Accordingly, this should not be viewed as a one-way shift of personnel toward a specific division. Rather, we aim to establish a structure in which the Cross-Sector Offering Promotion Office, business divisions, and AI utilization work closely together to enhance value creation across the organization as a whole.

Q. Looking at the business portfolio vision, consulting sales ratio in the final year of medium-term management plan is approximately 10%, which does not seem to be a plan for significant growth. I understand that there used to be a concept of "turning all

employees into consultants." Is it correct to interpret the current strategy not as expanding profits from consulting alone, but rather as accumulating profits through the overall growth in project scale and profitability of the next-generation SI business?

A. The concept of "turning all employees into consultants" remains unchanged.

It is true that consulting currently accounts for around 10% of our revenue. However, what we are aiming to build is a "circular model," in which we win projects through offering-based proposals and then expand them into consulting engagements and next-generation SI development.

Leveraging the assets we have cultivated over many years, we make offering-based proposals grounded in a deep understanding of our clients' business operations. From there, we address a wide range of needs—from top-level consulting for management to technology consulting that works closely with on-site operations to drive business transformation. Ultimately, we aim to take full responsibility for the entire process, including system development and implementation.

In other words, consulting is not intended to generate profits on a standalone basis; rather, it serves as the entry point for proposals. Through offering-based proposals, we create opportunities, which are then materialized and expanded into value through consulting and next-generation SI development.

In the Next-Generation SI Business, success requires not only traditional contract-based development capabilities, but also strong proposal and development capabilities that leverage AI and DX. Therefore, we will continue to develop employees with consulting capabilities and aim to cultivate engineers with consulting expertise across the organization.

Q. In Offering-Based Business, you are going to make proposals to the management level, but I think your company with the focus area of social infrastructure has many large corporate clients. I know the hurdle to approach management is high, but how do you overcome this challenge?

A. As you pointed out, our business is centered on the social infrastructure domain, and many of our clients are large corporations. As a result, we recognize that gaining access to top management can present a certain level of difficulty.

At the same time, over the 50 years since our foundation, we have steadily built a strong track record and established long-term relationships of trust with our clients. Through our day-to-day business operations and project execution, we have developed extensive human networks across a wide range of organizational levels, including senior management.

As a result, we already maintain points of contact and communication channels with the management teams of many clients, and we are leveraging these relationships to promote offering-based proposals to top management.

Going forward, we will continue strengthening our offering proposals to management teams by utilizing the trust and networks we have cultivated over many years.

Q. News has come out that Hitachi will collaborate with Anthropic. I understand that the content was to utilize AI in areas such as railroads and electric power, but is there any possibility that even mission-critical systems will be replaced by AI in the future? In that case, does your company have a chance to win?

A. As widely reported, we recognize that as AI continues to evolve and become more widely adopted, there is significant potential for AI applications to expand into mission-critical systems, including those in the social infrastructure domain.

At the same time, applying AI to mission-critical systems requires an extremely high level of reliability and safety, as well as the ability to manage highly complex system integrations. As such, we believe that realizing these applications will require substantial technological expertise and deep operational knowledge, and will not be easily achieved. Rather than simply replacing existing systems, we expect AI to become deeply integrated with them.

For many years, we have been engaged in the development of highly advanced and complex systems in the social infrastructure domain, particularly in the electric power field. Through this experience, we have developed a deep understanding of the technical challenges and operational requirements unique to mission-critical systems. We believe this represents one of our core strengths. As AI adoption in mission-critical fields accelerates, we believe there will be opportunities for us to provide unique value that only our company can deliver by leveraging our track record and technological expertise in the social infrastructure domain. We therefore view this trend as a potential tailwind for our business.

Going forward, we will continue to accurately capture advances in AI while strengthening both our technological capabilities and operational expertise in order to further enhance our competitiveness in this domain.

(Note) English documents are prepared as a courtesy to our stakeholders. In the event of any inconsistency between English-language documents and Japanese-language documents, the Japanese-language documents will prevail.