

II. Business Conditions

1. Management Policy, Business Environment, and Issues to be Addressed

The Company's management policy, business environment, and issues to address are as described below.

Please note that the statements about the future in the text are judgments we made at the end of the fiscal year ended January 31, 2024.

(1) Management policy

Based on our management philosophy of being an Engineer Support Company, we are committed to serving as a technical partner that contributes to the sustainable growth of our clients. This basic stance, developed over many years, has built up a lot of trust and achievements, establishing our firm position as a pioneer in the industry. We will continue to expand our corporate value by promoting management that will win the support and approval of our clients, shareholders, employees, and all other members of society.

(2) Corporate planning and strategy

(Guiding principle for the Medium-Term Business Plan)

“Build a foundation for sustainable and next-generation growth”

“Make Value for 2022 to 2024”

(Priority measures for the Medium-Term Business Plan)

(i) Promote strategies by segment

- Develop strategies for each segment (recruitment - education - assignment - system).
- Establish approaches to markets by segment.
- Explore and seek new specialist fields of technology.

(ii) Promote diversity and inclusion in talent management

- Utilize workers of retirement age, women, and foreign workers (overseas students) as personnel.
- Utilize and organize partner companies (set up a contracting system).

(3) Objective indicators for assessing the achievement status of management goals, etc.

In the engineer dispatching business, our main business, the following indicators are used. Net sales: the amount calculated by the number of operative personnel (number of engineers × utilization rate) × unit price of engineers × total work person-hours; cost of sales: labor costs for engineers assigned to our clients; and selling, general and administrative expenses: labor costs for engineers undergoing in-house training (standby status) and labor costs for other staffers.

We consider the engineer count, utilization rate, and unit price of engineers as particularly important management indicators, and will focus on efforts to improve them further.

(4) Business environment

We will continue to watch the impact of the Noto Peninsula Earthquake, which occurred on January 1, 2024, on the economy to gain a clearer outlook.

In regard to the market environment during the fiscal year ending January 31, 2025, we envisage that the full post-pandemic recovery will speed up, and that our strategically critical clients, namely manufacturers in industries related to automobiles and semiconductor manufacturing equipment, will further accelerate their development work. With this market environment, we foresee buoyant demand for engineers we provide will continue.

(5) Business and financial issues that should be prioritized

Our main business, which is the engineer dispatching business, consists of a cycle of recruitment, training, sales, and support activities. We must address the following issues for future business expansion.

(Recruitment activities)

We view securing and increasing the number of talented engineers as an essential requirement for the expansion of our business. Therefore, we will strive to secure high-quality talents that meet the market needs by implementing measures such as improving our recruitment criteria, securing recruitment opportunities, hiring diverse and inclusive talents, optimizing the composition of engineers by field and business domain, and optimizing the composition of new graduate and career hires.

With regard to the recruitment of new graduates, we will conduct company information sessions and interviews, etc., either online or in person, for students in order to secure participants in the selection process. We will also regularly provide detailed follow-ups to universities and prospective employees, and hold get-togethers for prospective employees in an effort to increase the

percentage of prospective employees who join the Company.

(Training activities)

We will improve the skills of our engineers by providing general, external, basic, customized, and/or career training based on our long-accumulated experience.

In addition, we will strive to improve the technical and human skills of our staff by holding skill development seminars for all employees and human development training for managers.

(Sales activities)

We will secure and expand our business partners by strengthening our new business development and sales capabilities, utilizing online conferencing tools, and making proposals for the selection of engineers, team dispatching, and organization of contracting services in response to client needs.

In addition, we will negotiate with client companies to assign and place appropriate engineers for improved business terms and conditions, such as an increase in the unit price of engineers.

(Support activities)

Through regular interviews with engineers, including online meetings, we will strive to improve the retention rate by providing guidance and advice according to the engineers' wishes and actual conditions, and by providing dedicated counselors for improved mental health and motivation.

2. Our Approach to and Efforts toward Sustainability

Our approach to and efforts toward sustainability are as stated below.

Please note that the statements about the future in the text are judgments we made at the end of the fiscal year ended January 31, 2024.

(1) Sustainability in general

Artner's basic approach to promoting sustainability activities is to support the growth and self-actualization of our engineers based on our management philosophy of being an "Engineer Support Company that supports our engineers' dreams," while seeking to maximize enterprise value, contribute to the resolution of social issues through our business activities, and build a foundation for sustainable growth and growth for the next generation. Based on this approach, we have established the following Basic Sustainability Policy as well as a human rights policy, procurement policy, and other policies to clarify the principles and direction of our corporate activities. In addition, considering stakeholder interests and social issues, as well as their impact on our business management, we have identified eight materiality topics (material issues) that should be prioritized and are engaging in effective management practices and business activities to resolve these issues.

To ensure that our sustainability initiatives are accessible to all stakeholders, we provide information in our Annual Report, on our sustainability website, and through other means.

Basic sustainability policy

Cultivating people	To foster engineers to support manufacturing industries.
Employee happiness	To provide a workplace environment that makes the work of all employees meaningful and fulfilling.
Corporate governance	To sustain and develop positive relationships with all stakeholders, while strictly abiding by all applicable laws and regulations.
Contributing to society	To make a positive contribution to society through business, to help build a better and more prosperous world.

(i) Governance

Artner sees sustainability issues, including social and environmental issues such as the recent SDGs and ESG, as key management issues, and has established the Sustainability Committee to serve as a structure to promote sustainability management. Under the direct supervision of the Board of Directors, the Committee is responsible for establishing sustainability policies, targets, and action plans, managing and evaluating progress toward these targets, deliberating on individual measures, and reporting to the Board of Directors.

The Committee, chaired by the President and CEO, is composed mainly of Directors who are not members of the Audit and Supervisory Committee, Directors who are members of the Audit and Supervisory Committee, and division heads and managers, and is held four times a year.

Structure for promoting sustainability



(ii) Strategy

Our materiality topics (material issues) are determined through the following process.

a. Identify the issues

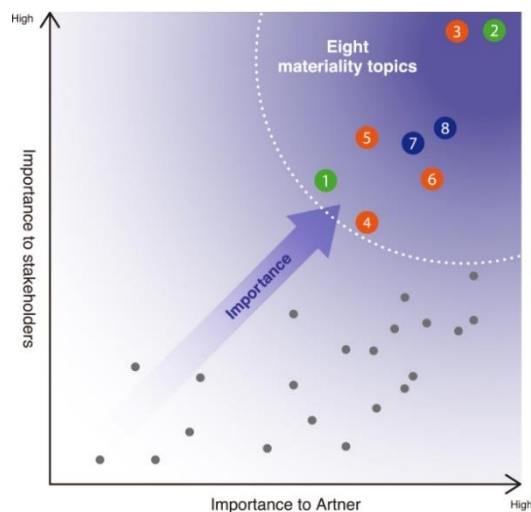
We analyzed potential materiality topics based on various international standards, ESG-related external evaluations, and requirements from society including stakeholders. Thirty-one topics were identified.

b. Prioritize the issues

The identified issues were assessed by conducting internal and external stakeholder surveys in terms of their expectation and requirement levels for Artner, and then prioritized by two criteria: “importance to stakeholders” and “importance to Artner.”

c. Validate and determine the material issues

Selected and prioritized issues were reviewed in the Sustainability Committee for validation to finalize Artner’s materiality topics.



Eight materiality topics (relevant ESG issues)

Environmental	1 Improve energy efficiency and reduce energy usage
	2 Contribute to carbon neutrality through business activities
Social	3 Resolve social issues by creating jobs
	4 Respect human rights
	5 Promote diversity and inclusion
	6 Develop and secure promising talents
Governance	7 Strengthen corporate governance
	8 Promote compliance management

(iii) Risk management

In addition to clarifying the system for the overall management of various risks, we classify and define each business risk by type and have the department in charge of each type of risk monitor and analyze the risk situation. We also have a system in place for the overall management of various types of risks through the Compliance and Risk Management Meeting, where we clarify and monitor the management and countermeasures for each type of risk.

(iv) Indicators and targets

We have categorized the eight materiality topics (material issues) into three areas (Environment, Social, and Governance), and set and monitor KPIs and targets for each issue. These indicators and targets are deliberated on and evaluated by the Sustainability Committee, then reported to the Board of Directors by the President and CEO, who chairs the Sustainability Committee. We review these materiality topics (material issues), indicators, and targets as necessary, based on the business environment and awareness of the issues.

(2) Climate Change

In recent years, our social environment has continued to change on a global scale, and addressing social issues, such as initiatives based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), has become an important item on the management agenda. We regard addressing climate change as a material issue and have made carbon neutrality a pillar of our business activities in our new Medium-Term Business Plan (FY2023–FY2025). We will continue to strategically prioritize markets linked to carbon neutrality, such as electric vehicle (EV), fuel cell vehicle (FCV), automated driving, and semiconductor-related markets, and will focus on recruitment, education, and sales for these markets. Moreover, by having our engineers participate in carbon neutrality-related technology development projects such as these, we will advance the development of these technologies and support their widespread use in the market, thereby contributing to the realization of carbon neutrality.

In July 2022, we announced our support for the recommendations from the Task Force of Climate-related Financial Disclosures (TCFD). We will disclose information in a manner consistent with the recommendations published by the TCFD, with the aim of achieving a sustainable society.

(i) Governance

As we have rated climate change as a high-priority issue, we have established the Sustainability Committee as a special committee for discussing sustainability-related issues including climate change. This Committee is established directly under the Board of Directors, and reports and submits the topics it discusses to the Board, which then deliberates and makes decisions on them. The content of such discussions will be disclosed externally and reflected in the Company's management policies and various initiatives. The main members of the Committee consist of Directors who are not members of the Audit and Supervisory Committee (including the President and CEO), Directors who are Audit and Supervisory Committee members, as well as division heads and managers. The Committee is held four times a year. The Committee promotes and manages the status of sustainability issues and initiatives, including those related to climate change. The topics deliberated in the Committee are reported to the Board of Directors. The Board then deliberates and adopts the resolutions on important risks and opportunities related to climate change, gives instructions on how to deal with them, and supervises the progress of such initiatives.

(ii) Strategy

In April 2022, our Sustainability Committee conducted a climate change scenario analysis based on the recommendations from the TCFD. For this analysis, we identified key risks and opportunities related to climate change and conducted a qualitative evaluation of their impact. Our first scenario analysis, which covered our main business area of engineer dispatching, used two scenarios (a 4°C scenario and a combined 1.5°C and 2°C scenario) to examine the impact of climate change in the year 2030. We extracted risks and opportunities, and the degree of impact on our business activities was evaluated on a three-point scale of large, medium, and small.

Regarding the financial impact of climate change on our business, we consider the risk of climate change to be low, as we are primarily engaged in engineer dispatching services in Japan and do not need to own production facilities or other equipment.

Summary of scenario analysis results (risks and opportunities)

Short-term: Impact is apparent in less than 3 years; Medium-term: Impact is apparent in 3 years to less than 10 years (up to around 2030); Long-term: Impact is apparent in 10 years or later

Based on financial impact – Large: Impact is clearly large; Medium: Degree of impact is unknown; Small: Impact is clearly small

Large category	Medium category	Small category	Timeframe	Consideration: risks	Evaluation (risks)	Consideration: opportunities	Evaluation (opportunities)
Transition (1.5 and 2°C scenarios)	Technology	Advances in low-carbon technologies	Short- to long-term	Our main customers are in the automotive industry, which requires us to provide engineers who can develop products related to low-carbon technologies. If we are slower than our competitors to respond to these technologies, our engineers' skills may be considered obsolete and the demand for the dispatch of engineers may shrink, resulting in decreased sales. If new technologies need to be incorporated, costs for information gathering and training may increase.	Large	A low-carbon society may be promoted, which will lead to an increase in the demand for products using low-carbon technologies. In such a case, our sales may increase due to an increased demand for the dispatch of engineers to our existing clients and new clients.	Large
	Market	Change in demand for important products	Short- to long-term	Our main customers are in the automotive industry, which requires us to provide engineers who can develop products related to low-carbon technologies. If we are slower than our competitors to respond to these technologies, our engineers' skills may be considered obsolete and the demand for the dispatch of engineers may shrink, resulting in decreased sales. If new technologies need to be incorporated, costs for information gathering and training may increase.	Medium	Since the Company's main customers belong to the automotive industry, actively attracting engineers who can deal with the design and development processes that support the shift to zero-emission vehicles (ZEVs) may lead to increased demand for the dispatch of engineers, which could result in higher	Large
	Reputation	Change in reputation from customers	Short- to long-term	The momentum for decarbonization is growing throughout the supply chain. Clients may require their suppliers to reduce emissions and disclose relevant information. In particular, the automotive industry, which accounts for a major part of our customer base, is making much progress in this area than other industries. If our efforts are deemed insufficient, there is a risk that our reputation will be damaged, leading to a decrease in sales. In addition, significant costs may be required to address these issues.	Large	As the entire supply chain of the automotive industry is making an effort to reduce emissions, if we become recognized as a leader in addressing climate change issues, this could lead to increased sales.	Large

Physical impact (4°C scenario)	Acute	Intensifying extreme weather events (typhoons, torrential rains, landslides, storm surges, etc.)	Long-term	If our clients are adversely affected by increased natural disasters causing operation downtime, etc., our sales may decrease due to reduced demand for engineers as a result of R&D budget cutbacks. Also, in the event that our offices and training facilities are affected by such disasters, costs for recovery and relocation may be incurred.	Large	—	—
	Chronic	Increased average temperature	Long-term	Rising average temperatures will increase the use of air conditioning, which may increase costs at all our business and training facilities.	Small	If rising outdoor temperatures increase the need for safer and more comfortable indoor temperatures, the manufacturers' demand for developing HVAC equipment will increase, which may result in an increased demand for the dispatching of our engineers and increased sales.	Medium

(iii) Risk management

At the Compliance and Risk Management Meeting, we identify risks that need to be addressed among various risks such as climate change, set priorities for responding to such risks, and manage progress on an ongoing basis. The topics discussed in the Meeting are reported and submitted to the Board of Directors, which then deliberates and makes decisions on such topics.

(iv) Indicators and targets

We calculate our greenhouse gas (GHG) emissions as shown below.

Our goal for FY2051 is to achieve net zero GHG emissions

unit : tCO₂

Greenhouse gas (GHG) emissions (Scope 1 and Scope 2)

	Description	Target		Result		
		FY2051	FY2025	FY2024	FY2023	FY2022
scope1	Use of fuel for rent-a-cars	Net zero	86.0	7.5	11.4	18.0
scope2	Use of electricity at our locations			91.2	79.9	79.3
Total				98.7	91.3	97.3

*Scope 3 emissions are currently being calculated.

(3) Human Capital

Artner's Management Philosophy is "Engineer Support Company: We support our engineers' dreams," and our Purpose is to "support the growth and self-actualization of engineers, who are Japan's world-class assets." As they embody, we have promoted our business as a corporation that exists for the sake of engineers' growth while always asking ourselves what we can do for them. We believe that creating value for the engineers themselves will, in turn, create value for Artner. We also believe that talent is our greatest business asset, and that talent development and organizational development are key areas essential to the Company's growth.

(i) Governance

Artner has established a Sustainability Committee to maximize the value of our human capital. The Committee is composed mainly of Directors who are not members of the Audit and Supervisory Committee (including the President

and CEO), Directors who are Audit and Supervisory Committee members, as well as division heads and managers. The Committee is held four times a year. At each meeting, the members hold discussions to promote and manage the progress of issues and initiatives related to human capital. The Director/Head of the Management Division serves as the overall supervisor and the Management Division's General Affairs and Human Resources Group functions as the Health and Productivity Management Promotion Office to plan, operate, and promote different health-related initiatives. The Board of Directors oversees sustainability matters, including occupational health and safety, and deliberates on key issues such as respect for human rights, the promotion of diversity and inclusion, and talent development and retention.

(ii) Strategy

We believe that supporting the growth and self-actualization of engineers, who are Japan's world-class assets, and creating value for the engineers themselves will, in turn, create value for Artner. We consider our engineers to be not only assets of Artner, but also shared assets of Japan, and we nurture engineers as a platform to support their growth and self-actualization based on our policy on talent development. Amid a rapidly changing work environment and mindset, driven by talent mobility and diversity, we will strive to promote the happiness of working engineers and create a new model for "life as an engineer." We are also committed to providing a satisfying work environment and supporting the growth and self-actualization of each and every one of our staff members, as stated in our basic sustainability policy: "aiming for the happiness of all employees." Our main business, which is the engineer dispatching business, consists of a cycle of recruitment, training, sales, and support activities. We must address the following issues for future business expansion.

(Recruitment activities)

We view securing and increasing the number of talented engineers as an essential requirement for the expansion of our business. Therefore, we will strive to secure high-quality talents that meet the market needs by implementing measures such as improving our recruitment criteria, securing recruitment opportunities, hiring diverse and inclusive talents, optimizing the composition of engineers by field and business domain, and optimizing the composition of new graduate and career hires.

With regard to the recruitment of new graduates, we will conduct company information sessions and interviews, etc., either online or in person, for students in order to secure participants in the selection process. We will also regularly provide detailed follow-ups to universities and prospective employees, and hold get-togethers for prospective employees in an effort to increase the percentage of prospective employees who join the Company.

(Training activities)

At Artner, we are building a "T-shaped specialist education system," a system for improving the skills of each and every engineer, in which the horizontal axis represents specialized knowledge and work skills, and the vertical axis represents general education and communication capabilities. Through this system, we will strive to enable new employees and workers with little or no experience to participate in cutting-edge projects at an early stage and shift their careers to growing industry fields.

(iii) Risk management

At Artner, the Compliance and Risk Management Meeting identifies human capital risks and monitors their progress. Risks that may have a significant impact on investors' decisions include the following.

(Effectiveness of education and training)

We strive to improve the skills of our engineers by providing training programs that have been developed based on many years of experience. However, if the training does not turn out to be as effective as expected and the unit price of engineers does not increase due to low customer satisfaction, and/or if we fail to satisfy the requests from clients and they start to make complaints, our financial status and business performance may be affected.

(Securing science and engineering graduates)

We consider science and engineering graduates to be an important managerial resource, but if the population of science and engineering graduates were to decrease due to the declining birth rate and other factors, making it significantly more difficult to hire talented graduates, our financial status and business performance may be affected.

(Securing career engineers)

We consider engineers with work experience to be an important managerial resource. However, if the competition to secure career hires intensifies due to a shortage of engineers who wish to change jobs as a result of booming design and development activities in the manufacturing industry, making it significantly more difficult to hire talented career engineers, our financial status and business performance may be affected.

(iv) Indicators and targets

The Company has established KPIs and targets to evaluate the effectiveness of human capital initiatives in line with our Medium-Term Business Plan. The targets we set are reviewed according to changes in the external environment and our progress made on human capital measures.

Indicators	KPI	Recent result	Target
Talent development	Average hours of annual training per employee (engineer)	73.2 hours (FY2024)	Same level each year
	Average cost of annual training per employee (engineer)	54,000 yen (FY2024)	Same level each year
	Percentage of employees who have received talent development training	87.4% (FY2024)	Same level each year
	Percentage of employees who have received harassment training	100.0% (FY2024)	100.0%
Work engagement	Work engagement score (Measurement method: New Brief Job Stress Questionnaire)	2.6 (FY2024)	2.7
Mobility	Number of new graduates (engineer)	133	200(FY2026)
	Number of career hires (engineer)	58	100(FY2025)
	Term-end engineer count	1,192	1,600(FY2025)
	turnover rate (engineer) *Excluding retirement and turnover via the	8.3 %	7.1 %(FY2025)
	Recruitment cost(engineer)	¥ 0.41 billion	¥ 0.66 billion (FY2025)
Diversity	Share of female employees (engineers)	3.7% (FY2024)	Increase on an ongoing basis
	Share of female employees (administration)	33.8% (FY2024)	Increase on an ongoing basis
	Share of female employees (engineers) among new employees	5.2% (FY2024)	Increase on an ongoing basis
	Share of female employees (administration) among new	47.1% (FY2024)	Increase on an ongoing basis
	Share of female employees in managerial positions	3.1% (FY2024)	Increase on an ongoing basis
	Share of female executive officers	0.0% (FY2024)	30.0% or more (FY2031)
	Wage difference between male and female employees (overall)	Male 100.0% : Female 89.2% (FY2024)	Narrow the difference
	Wage difference between male and female employees (engineers)	Male 100.0% : Female 95.8% (FY2024)	Narrow the difference
	Wage difference between male and female employees (administration)	Male 100.0% : Female 71.9% (FY2024)	Narrow the difference
	Usage rate of childcare leave (male employees)	50.0% (FY2024)	30.0% or more (FY2029)
	Usage rate of childcare leave (female employees)	66.7% (FY2024)	80.0% or more (FY2029)
Health/Safety	Number of occupational accidents	6 (FY2024)	None
	Occupational accident-related fatality rate	0.0% (FY2024)	0.0%
	Downtime due to occupational accidents	52.50 hours (FY2024)	0.00 hours
	Percentage that received health and safety training, attendance rate	100.0% (FY2024)	100.0%
Compliance	Number of serious human rights issues	None (FY2024)	None
	Number of discrimination incidents	None (FY2024)	None
	Percentage of employees who have received compliance training	100.0% (FY2024)	100.0% (FY2024)
	Percentage of employees who have received information security training	100.0% (FY2024)	100.0%

To achieve the targets, we are specifically making the following efforts.

(Talent development/Work engagement/Mobility)

Artner will strive to improve the skills of our engineers by providing general, external, basic, customized, and/or career training based on our long-accumulated experience, such as the “human skill enhancement seminar” and “technological capability booster lectures” that help develop leadership skills. In addition, we will strive to improve the technical and human skills of our staff by holding skill development seminars for all employees and human development training for managers.

Specifically, we facilitate the improvement of all engineers’ skill levels through educational programs and training curricula

segmented by business field, with the aim of promoting the assignment of engineers to upstream business areas where the unit price of engineers is likely to be higher. This has resulted in more engineers being assigned to upstream business areas, leading to an increase in the unit price of engineers and to the operating margin exceeding the target. In addition, due to the revamping of our business model (establishment of four business divisions), engineers have been more attracted to the Company, and the turnover rate has been lower compared to before the revamping.

For the development of next-generation leaders, we regularly conduct manager training.

We established the Nomination Committee as an advisory board to the Board of Directors, whose chair and a majority of the members are independent outside directors. The committee deliberates on the nomination of the President and CEO, directors (not members of the Audit and Supervisory Committee), directors (members of the Audit and Supervisory Committee), and executive officers (hereinafter collectively referred to as “officers, etc.” in this paragraph). By doing so, we seek to leverage the knowledge and advice of outside directors, ensure the objectivity and transparency of the nomination process for officers, etc., enhance the supervisory function of the Board of Directors, and further strengthen our corporate governance.

The Nomination Committee meets at least four times a year to deliberate and evaluate the continuation or replacement of candidates and reports the results to the Board of Directors.

-Talent retention

We strive to increase motivation and improve the retention rate by holding regular interviews with engineers, including online meetings, and providing guidance and advice according to the engineers’ wishes and actual conditions. In addition, we provide access to dedicated counselors for mental health care who help our engineers find answers to various problems they face.

(Diversity)

- Promotion of active participation of women

To help establish an employment environment that enables the active participation of women and permits employees to achieve a better work-life balance, Artner has formulated a General Employers Action Plan, based on the Act on Promotion of Women’s Participation and Advancement in the Workplace and the Act on Advancement of Measures to Support Raising Next-Generation Children. We are working to increase the number of female employees in managerial positions and improve the childcare leave and nursing care leave utilization rate.

- Payment of fair wages

Artner’s wage system does not pay different wages based on gender. However, due to the higher proportion of male employees in high-ranking positions, the overall wage difference between male and female employees was 100.0% (male): 89.2% (female) in FY2024. To narrow this gap, we are working to increase the ratio of female employees in middle managerial positions through training and other measures for female employees.

- Promotion of diversity

We believe that promoting workplace diversity and giving all employees the opportunity to demonstrate their full potential will lead to innovation and value creation. In September 2011, we established the Diversity Promotion Office (now Diversity Team) as a department focused on people with disabilities. This department promotes the employment of people with disabilities as well as the creation of a fulfilling workplace. We strive to foster an inclusive company culture, through measures such as diversity training, LGBTQ study meetings, and activities to promote an understanding of gender equality by all employees.

(Health/Safety)

- Occupational safety and health

By considering the occupational health and safety of our employees, Artner strives to enhance enterprise value and create an organization where all the employees can work safely and with peace of mind.

In addition, because we believe that the ability of our employees to work in good health and with peace of mind will result in the well-being of all the employees and reflection within the company, we promote employee health management and health promotion initiatives.

- Risks related to potential hazards involved in labor

We strive to prevent accidents and reduce the risk of accidents occurring by providing health and safety education for employees when they join the company and when they are assigned to clients.

- Employee benefits offered

We have established the Employee Stock Ownership Association, a system that allows employees to build their assets without a significant commitment through the purchase of company stocks. Funds to purchase company stocks are deducted from employee salaries and bonuses for non-burdensome, planned investments, with the Company paying out subsidies depending on how much money was contributed in a month.

- Stance on the labor union

We will respect the rights of employees to form and join labor unions, to bargain collectively, and to participate in peaceful assembly of their own volition, as well as their rights to withhold such participation. Artner's labor union is named Artner Workers' Union. The superior body it belongs to is UA ZENSEN.

(Compliance)

- Human rights

prohibits forced labor, slavery or labor trafficking, and child labor. In addition, we have established a mechanism for human rights due diligence in line with the United Nations' Guiding Principles on Business and Human Rights, and will identify negative impacts on human rights and work toward preventing and mitigating them, continuously assess the effectiveness of our efforts, and make appropriate disclosures. There have been zero consultations about discrimination during the current fiscal year.

- Social risks in supply chains

Artner recognizes that human rights initiatives are required not only by the Company, but also by our supply chain. We have therefore established a procurement policy and will comply with laws and regulations and respect basic human rights as a responsible member of society. We share our approach to human rights with our suppliers and strive to identify human rights risks in the supply chain as part of our procurement process.

3. Business and Other Risks

Of the matters regarding business conditions and financial information included in the Annual Securities Report, those that may have a material impact on investors are stated below. Please note that the statements about the future in the text are judgments we made at the end of the fiscal year ended January 31, 2024.

(Performance trends in the manufacturing industry)

Our major clients belong to the manufacturing industry, and we dispatch engineers primarily to their design and development departments. If these major clients were to reduce their capital investments, R&D costs, and the use of external engineers due to economic recession and other factors in the countries or regions in which they operate, our financial status and business performance may be affected. In addition, if significant changes in the business environment take place for automobile-related manufacturers, which account for a large share of our sales, our financial status and business performance may be affected.

(Competition with other companies in the industry)

If competition with other companies intensifies due to market contraction or new entrants in the engineer staffing industry, where we operate our business, and this results in a fierce price competition, our financial status and business performance may be affected.

(Effectiveness of education and training)

We strive to improve the skills of our engineers by providing training programs that have been developed based on many years of experience. However, if the training does not turn out to be as effective as expected and the unit price of engineers does not increase due to low customer satisfaction, and/or if we fail to satisfy the requests from clients and they start to make complaints, our financial status and business performance may be affected.

(Securing suitable clients for our dispatching business)

Although we always strive to secure and expand our clients for our engineer dispatching business, if we are unable to find suitable clients that match our engineers and cannot maintain or improve the unit price of engineers and/or utilization rates, our financial status and business performance may be affected.

(Regulations on total work person-hours)

The total work person-hours of our engineers is determined based on the business conditions of the client company. If the revisions to relevant laws and regulations generate a larger pressure against long working hours, which may result in a significant decrease in the total work person-hours of engineers, our financial status and business performance may be affected.

(Securing science and engineering graduates)

We consider science and engineering graduates to be an important managerial resource, but if the population of science and engineering graduates were to decrease due to the declining birth rate and other factors, making it significantly more difficult to hire talented graduates, our financial status and business performance may be affected.

(Securing career engineers)

We consider engineers with work experience to be an important managerial resource. However, if the competition to secure career hires intensifies due to a shortage of engineers who wish to change jobs as a result of booming design and development activities in the manufacturing industry, making it significantly more difficult to hire talented career engineers, our financial status and business performance may be affected.

(Information management)

By introducing measures such as acquiring the “PrivacyMark,” we have been committed to properly managing personal information, confidential information, and all other information obtained in the course of our business operations. However, if such information is leaked to outside parties for some reason, our social credibility will be damaged, and our financial status and business performance may be affected. In addition, although we take appropriate security measures to ensure the stable supply of our services, system failures and other problems may be caused by computer viruses, unauthorized access, natural disasters, or other unforeseen events, and in such cases, our financial status and business performance may be affected.

(Laws, regulations, licenses, and permits)

The following laws and regulations apply for each of our business categories:

(i) Worker dispatching business

Dispatching of engineers, which is our main business, is carried out under the license from the Minister of Health, Labour and Welfare as described below, based on the Act on Securing the Proper Operation of Worker Dispatching Businesses and Protecting Dispatched Workers (hereinafter referred to as “Worker Dispatching Act”)

License name	Supervisory authority	License number	Licensed date	Expiration date
Worker dispatching business	Ministry of Health, Labour and Welfare	派 27-020513	December 1, 2003	November 30, 2026

We consider compliance with the Worker Dispatching Act and relevant laws and regulations to be one of our highest priorities, and strive to maintain a legal compliance system by monitoring compliance with laws and regulations via internal audits and by regularly confirming compliance with laws and regulations at different meetings. However, in the unlikely event that we violate such laws and regulations, which would hinder the continuity of our business, our financial status and business performance may be affected.

In addition, Article 14 of the Worker Dispatching Act stipulates that if a dispatching business operator falls under any of the disqualification grounds provided in Article 6 of the Worker Dispatching Act (main possible grounds: if the Company is sentenced to imprisonment or more, or is sentenced to a fine for violating the Labor Standards Act, the Worker Dispatching Act, the Employment Security Act or other labor-related laws, or the Health Insurance Act, the Employment Insurance Act or other laws, or for committing a crime under the Penal Code, the Immigration Control and Refugee Recognition Act or other laws, and five years have not passed from the date on which the execution of the sentence is completed or the sentence is no longer executed; or if the Company becomes an adult guardian or warrantee, or goes bankrupt and has not had its rights restored, etc.) or violates the Worker Dispatching Act and the Employment Security Act, the business operator shall be ordered to have its business license canceled or its operations suspended. However, there are no such disqualification grounds applicable to us at this time. However, in the unlikely event that we violate such laws and regulations and are ordered to have our business license canceled or our operations suspended, it may become difficult to continue our business, and our financial status and business performance may be affected.

The Worker Dispatching Act and other relevant laws and regulations are being revised from time to time by means of adding modifications in response to changes in the labor environment, social conditions, and other factors.

We take appropriate measures whenever such laws and regulations are revised. However, if any such revisions made are significantly unfavorable to our business, our financial status and business performance may be affected depending on the details of the revised laws and regulations.

(ii) Paid employment agency business

Our paid employment agency business is conducted under the license from the Minister of Health, Labour and Welfare as described below, based on the Employment Security Act:

License name	Supervisory authority	License number	Licensed date	Expiration date
Paid employment agency business	Ministry of Health, Labour and Welfare	27-コ-020355	February 1, 2004	January 31, 2027

Article 32-9 of the Employment Security Act stipulates that if a provider of paid employment placement services (including its executives in case of a company) falls under any of the disqualification grounds as a paid employment agency business (if the Company is sentenced to imprisonment or more, or is sentenced to a fine for violating the Labor Standards Act, the Employment Security Act, the Worker Dispatching Act, or other labor-related laws, or for committing a crime under the Penal Code, the Immigration Control and Refugee Recognition Act or other laws, and five years have not passed from the date on which the execution of the sentence is completed or the sentence is no longer executed; or if the Company becomes an adult guardian or warrantee, or goes bankrupt and has not had its rights restored, etc.), or violates the Employment Security Act and the Worker Dispatching Act, the service provider shall be ordered to have its business license canceled or its operations suspended. However, there are no such disqualification grounds applicable to us at this time. However, in the unlikely event that we violate such laws and regulations and are ordered to have our business license canceled or our operations suspended, it may become difficult to continue our business, and our financial status and business performance may be affected.

In addition, if such laws and regulations are revised in the future and if any such revisions made are significantly unfavorable to our business, our financial status and business performance may be affected.

(Disasters, accidents, etc.)

We have established a manual to deal with natural disasters, man-made disasters, and other disasters and accidents (hereinafter referred to as “Disasters, etc.”) in an effort to minimize the damage. However, if any Disasters, etc. that significantly exceed our prediction take place, our financial status and business performance may be affected.

In addition, in the event that our business activities are hindered as a result of the spread of COVID-19 infections and other factors, our financial status and business performance may be affected.

(Climate change)

In the event that our business activities are halted or stagnated as a result of our facilities being damaged by natural disasters due to climate change, our financial status and business performance may be affected.

In addition, if a carbon tax is introduced or environmental regulations are tightened as part of the government’s effort to transition to a decarbonized society, and if we are unable to offer personnel that meets our clients’ demands for engineers committed to carbon neutrality initiatives, our financial status and business performance may be affected.

(Mergers and acquisitions)

We have a policy of conducting mergers and acquisitions (M&A) to acquire new areas of expertise and technology with an aim to increase sales and revenues through expanding the scale of our business. Our M&As are implemented after thorough consideration of the risks involved by conducting preliminary research through detailed due diligence on market trends and client needs, as well as the financial status and contractual relationships of the target company. However, M&As may result in significant capital demands and amortization of goodwill, etc. In addition, such M&As may not necessarily generate synergies as expected by us. If the business performance does not progress as expected due to major changes in the business environment or business conditions, goodwill impairment losses or valuation losses on shares may arise, and our financial status and business performance may be affected. Also, when a new business that we have not been engaged in previously is added to our portfolio through M&As, additional risk factors specific to that business domain will emerge.

(Medium-Term Business Plan)

In March 2022, we announced our new Medium-Term Business Plan “Build a foundation for sustainable and next-generation growth — Make Value for 2022 to 2024,” which concludes in the fiscal year ending January 31, 2025, and have been promoting specific measures accordingly. However, as the Medium-Term Business Plan is based on the outlook of the market environment and economic conditions at the time the plan was formulated, there is a possibility that the numerical business targets may not be achieved in the event that the market environment or economic conditions change dramatically beyond expectations and the business environment does not develop as predicted.

4. Management Analysis of Financial Status, Business Performance and Cash Flows

(1) Overview of business performance and other conditions

Artner’s financial status, business performance, and cash flows (hereinafter referred to as “financial performance and other conditions”) for the fiscal year ended January 31, 2024, are summarized as below.

(i) Financial status and business performance

This fiscal year has seen the Japanese economy on its way to full recovery as post-pandemic demand grew. Interest in development remains strong in various industry fields, including our main clients, manufacturers in industries related to automobiles and semiconductor manufacturing equipment, which generated great demand for engineers we provided. In these circumstances, we turned out to have more employees in operative personnel than the same period of the previous year because the number of engineers we have in our engineer dispatching business increased. In addition, the increase is attributable to the facts that the utilization rate remained high as demand for engineers rose, and that newly graduated

engineers who joined us in 2023 were assigned to their work ahead of the initial schedule. Moreover, the trend of engineer shortage pushed up the unit price for newly graduated engineers at their first assignments. Unit price negotiations with client companies based on current engineers' work performance also led the unit price of engineers to surpass the unit price for the same period of the previous year. The total work person-hours were at the same level as the same period of the previous year. The contracting business actively engaged in sales activities. Consequently, we had a larger number of engineers assigned to outsourced projects. In terms of profit, we provided allowance to our employees in commemoration of the Company's 60th anniversary during the previous fiscal year, yet the allowance was not recorded for this fiscal year. Hence, while net sales increased 9.4%, cost of sales rose only 6.5%. We also hired more staff members, and made recruitment investments including running recruitment advertising. As our recruitment and sales activities recovered to normal, travel expenses increased, which led to larger SG&A expenses.

As a result of all this, our financial status and business performance for this fiscal year are as stated below.

a. Financial status

The total assets at the end of this fiscal year increased JPY 440,898 thousand compared to the end of the previous fiscal year to JPY 6,114,087 thousand.

The total liabilities at the end of this fiscal year increased JPY 217,702 thousand compared to the end of the previous fiscal year to JPY 1,842,933 thousand.

The total net assets at the end of this fiscal year increased JPY 223,195 thousand compared to the end of the previous fiscal year to JPY 4,271,153 thousand.

b. Business performance

Net sales for this fiscal year totaled JPY 10,110,524 thousand (up 9.4% year on year), operating profit JPY 1,522,849 thousand (up 27.5% year on year), ordinary profit JPY 1,532,616 thousand (up 27.4% year on year), and profit JPY 1,051,817 thousand (up 17.5% year on year).

(ii) Cash flows

Cash and cash equivalents (hereinafter referred to as "cash") at the end of this fiscal year increased JPY 301,729 thousand compared to the end of the previous fiscal year to JPY 4,277,610 thousand.

Cash flows for the fiscal year and factors therein are as stated below.

(Net cash provided by (used in) operating activities)

The cash gained as a result of operating activities totaled JPY 1,126,248 thousand (up JPY 253,650 thousand year on year). This is mostly because we recorded JPY 337,660 thousand in profit before income taxes, whereas we also recorded JPY 1,527,357 thousand in income taxes paid.

(Net cash provided by (used in) investing activities)

The cash used as a result of investing activities totaled JPY 5,975 thousand (down JPY 18,110 thousand year on year). This is mostly because we recorded JPY 12,922 thousand in purchase of intangible assets.

(Net cash provided by (used in) financing activities)

The cash used as a result of financing activities totaled JPY 818,544 thousand (up JPY 391,712 thousand year on year). This is mostly because we recorded JPY 818,414 thousand in dividends paid.

(iii) Records of production, orders received, and sales

a. Record of production

A record of production has been omitted because the mainstay of our business consists of software, electronics, and machine engineer dispatching services, which, based on the nature of services provided, are not fit to be presented for a production record.

b. Record of orders received

A record of orders received has been omitted because orders received are almost equal to sales in terms of monetary amounts due to how our business works.

c. Record of sales

Sales results by business category for this fiscal year are as shown below.

Business Category	FY2024 (Fiscal year ended January 31, 2024)	
	Amount (thousands of yen)	YoY (%)
Engineer Dispatching Business	9,116,361	108.4
Contracting Business	943,575	118.7
Other businesses	50,587	147.3
Total	10,110,524	109.4

Notes: 1. Since we have only one reportable segment, the figures are sorted by business category.

2. The table below shows sales results sorted by major client and percentages they make up of overall sales for the last two fiscal years.

Client	FY2023 (Fiscal year ended January 31, 2023)		FY2024 (Fiscal year ended January 31, 2024)	
	Amount (thousands of yen)	Percentage (%)	Amount (thousands of yen)	Percentage (%)
Honda Motor Co., Ltd.	1,051,753	11.4	1,292,593	12.8
Honda R&D Co., Ltd.	895,763	9.7	1,026,843	10.2

(2) Analysis and discussion of the state of business performance and other conditions from the perspective of the management

The management of Artner understands, analyzes, and discusses the Company's business performance and other conditions as stated below.

Please note that the statements about the future in the text are judgments made at the end of the fiscal year ended January 31, 2023.

(i) Significant accounting estimates and assumptions used in the estimates

Artner prepares its financial statements based on accounting standards that are generally accepted as fair and appropriate in Japan. The significant accounting policies we have used to prepare the financial statements are as stated in "V. Financial Information 1. Financial Statements and Other Documents (1) Financial statements." The financial statements and other documents include projections, which is based on our decision as of the end of the fiscal year ended January 31, 2023. We made these projections based on logical judgments that consider results in the past. However, since estimates are by their nature uncertain, results may turn out to differ from the projections.

(ii) Understanding, analysis, and discussion of the state of business performance and other conditions for the fiscal year ended January 31, 2024

a. Business performance

(Net sales)

We turned out to have more employees in operative personnel than the same period of the previous year because the number of engineers we have in our engineer dispatching business increased. In addition, the increase is attributable to the facts that the utilization rate remained high as demand for engineers rose, and that newly graduated engineers who joined us in 2023 were assigned to their work ahead of the initial schedule. Moreover, the trend of engineer shortage pushed up the unit price for newly graduated engineers at their first assignments. Unit price negotiations with client companies based on current engineers' work performance also led the unit price of engineers to surpass the unit price for the same period of the previous year. The total work person-hours were at the same level as the same period of the previous year. As a result of all this, net sales for this fiscal year increased 9.4% year on year to JPY 10,110,524 thousand.

(Operating profit, ordinary profit, and profit)

We provided allowance to our employees in commemoration of the Company's 60th anniversary during the previous fiscal year, yet the allowance was not recorded for this fiscal year. Hence, while net sales increased 9.4%, cost of sales rose only 6.5%. We also hired more staff members, and made recruitment investments including running recruitment advertising. As our recruitment and sales activities recovered to normal, travel expenses increased, which led to larger SG&A expenses. As a result of all this, operating profit for this fiscal year increased 27.5% year on year to JPY 1,522,849 thousand, ordinary profit increased 27.4% year on year to JPY 1,532,616 thousand, and profit increased 17.5% year on year to JPY 1,051,817 thousand.

b. Financial status

(Assets)

The total assets at the end of this fiscal year increased JPY 440,898 thousand compared to the end of the previous fiscal year to JPY 6,114,087 thousand. This is mostly because we recorded an increase of JPY 301,729 thousand in cash and deposits and an increase of JPY 110,993 thousand in trade receivables.

(Liabilities)

Liabilities at the end of this fiscal year increased JPY 217,702 thousand compared to the end of the previous fiscal year to JPY 1,842,933 thousand. This is mostly because we recorded an increase of JPY 163,655 thousand in income taxes payable.

(Net assets)

Net assets at the end of this fiscal year increased JPY 223,195 thousand yen compared to the end of the previous fiscal year to JPY 4,271,153 thousand. This is mostly because we recorded an increase of JPY 228,341 thousand in retained earnings.

c. Sources of capital and liquidity of funds

The cash we have demand for is primarily to cover personnel expenses for engineers we dispatch to client companies. As a rule, we allocate our own funds to working capital, funds for equipment, and other required funds. Yet we also turn to borrowings from a bank to raise capital if the situation demands.

The state of cash flows is as stated in “II. Business Conditions 4. Management Analysis of Financial Status, Business Performance and Cash Flows (1) Summary of business performance and other conditions (ii) Cash flows.”

The table below shows indicators related to our cash flows.

	FY2020	FY2021	FY2022	FY2023	FY2024
Equity ratio (%)	71.8	70.5	70.4	71.4	69.9
Market value-based equity ratio (%)	230.9	206.9	181.4	186.7	384.2
Ratio of cash flows to interest-bearing liabilities (year)	—	—	—	—	—
Interest coverage ratio (times)	—	—	7,849.9	6,663.8	11,431.7

Equity ratio: Equity / Total assets

Market value-based equity ratio: Market capitalization / Total assets

Ratio of cash flows to interest-bearing liabilities: Interest-bearing liabilities

Operating cash flow Interest coverage ratio: Operating cash flow / Interest payments

Notes: 1. The calculation of market capitalization is based on the number of shares issued, excluding treasury shares.

2. The ratios of cash flows to interest-bearing liabilities are not shown because there are no year-end interest-bearing liabilities.

3. The interest coverage ratios for the fiscal year ended January 2020 and the fiscal year ended January 2021 are not shown because there were no interest payments.

d. Factors that may have a material impact on business performance

In regard to factors that may have a material impact on business performance, we are aware that our business environment, business fields, how we operate our businesses, and a variety of risk factors may have a material impact on our business performance, as stated in “II. Business Conditions 3. Business and Other Risks.”

Therefore, while keeping an eye on market trends at all times, we plan to strengthen our internal management structure, hire and retain talented employees, and offer services designed to match market needs, thereby diversifying and reducing risks that may have a material impact on our business performance and taking appropriate actions.

e. Objective indicators for assessing management policies, corporate planning and strategies, and the achievement status of management goals

Our Medium-Term Business Plan has defined the engineer count of 1,600 as a particularly important indicator, and we focus on further

efforts accordingly. With new graduates and career engineers who joined us this fiscal year, the term-end engineer count totaled 1,192 (up 35 year on year).

5. **Important Business Contracts**

Not applicable.

6. **R&D Activities**

Not applicable.