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February 14, 2025

## Consolidated Financial Results for the Fiscal Year Ended December 31, 2024 (Under Japanese GAAP)

Company name: Headwaters Co., Ltd.  
 Listing: Tokyo Stock Exchange  
 Securities code: 4011  
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 Scheduled date of annual general meeting of shareholders: March 28, 2025  
 Scheduled date to commence dividend payments: -  
 Scheduled date to file annual securities report: March 28, 2025  
 Preparation of supplementary material on financial results: Yes  
 Holding of financial results briefing: Yes (for institutional investors/analysts and individual investors)

(Yen amounts are rounded down to millions, unless otherwise noted.)

### 1. Consolidated financial results for the fiscal year ended December 31, 2024 (January 1, 2024 – December 31, 2024)

#### (1) Consolidated operating results

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Fiscal year ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
December 31, 2024	2,905	25.5	307	224.6	362	268.7	272	285.9
December 31, 2023	2,315	47.0	94	(13.8)	98	(8.1)	70	(5.9)

Note: Comprehensive income For the fiscal year ended December 31, 2024: ¥292 million [up 312.1%]  
 For the fiscal year ended December 31, 2023: ¥70 million [down 5.6%]

	Basic earnings per share	Diluted earnings per share	Return on equity	Ratio of ordinary profit to total assets	Ratio of operating profit to net sales
Fiscal year ended	Yen	Yen	%	%	%
December 31, 2024	72.01	65.38	24.5	23.4	10.6
December 31, 2023	18.85	16.99	7.7	8.0	4.1

Reference: Share of profit (loss) of entities accounted for using equity method

For the fiscal year ended December 31, 2024: ¥- million

For the fiscal year ended December 31, 2023: ¥- million

Note: Headwaters conducted a two-for-one common stock split effective July 1, 2023 and another two-for-one common stock split effective January 1, 2025. Basic earnings per share and diluted earnings per share have been calculated under the assumption that this stock split was conducted at the beginning of the fiscal year ended December 31, 2023.

#### (2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
December 31, 2024	1,800	1,272	70.4	333.73
December 31, 2023	1,294	961	74.1	254.73

Reference: Equity As of December 31, 2024: ¥1,267 million As of December 31, 2023: ¥958 million

Note: Headwaters conducted a two-for-one common stock split effective July 1, 2023 and another two-for-one common stock split effective January 1, 2025. Net assets per share have been calculated as if this stock split had taken place at the beginning of the fiscal year ended December 31, 2023.

**(3) Consolidated cash flows**

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
Fiscal year ended	Millions of yen	Millions of yen	Millions of yen	Millions of yen
December 31, 2024	144	(210)	10	843
December 31, 2023	87	(16)	8	897

**2. Cash dividends**

	Annual dividends per share					Total cash dividends (Total)	Payout ratio (Consolidated)	Ratio of dividends to net assets (Consolidated)
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Fiscal year ended December 31, 2023	-	0.00	-	0.00	0.00	-	-	-
Fiscal year ended December 31, 2024	-	0.00	-	0.00	0.00	-	-	-
Fiscal year ending December 31, 2025 (Forecast)	-	0.00	-	0.00	0.00		-	

**3. Consolidated forecast for the fiscal year ending December 31, 2025**  
**(January 1, 2025 – December 31, 2025)**

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full Year	4,007	37.9	328	6.5	332	(8.4)	237	(13.1)	62.57

\* **Notes**

(1) Significant changes in the scope of consolidation during the period: None

Newly included: - Excluded: -

(2) Changes in accounting policies, changes in accounting estimates, and restatement

(i) Changes in accounting policies due to revisions to accounting standards and other regulations: None

(ii) Changes in accounting policies due to other reasons: None

(iii) Changes in accounting estimates: None

(iv) Restatement: None

(3) Number of issued shares (common stock)

(i) Total number of issued shares at the end of the period (including treasury shares)

As of December 31, 2024	3,796,740 shares
As of December 31, 2023	3,762,596 shares

(ii) Number of treasury shares at the end of the period

As of December 31, 2024	84 shares
As of December 31, 2023	52 shares

(iii) Average number of shares outstanding during the period

Fiscal year ended December 31, 2024	3,787,979 shares
Fiscal year ended December 31, 2023	3,749,785 shares

Note: Headwaters conducted a two-for-one common stock split effective July 1, 2023 and another two-for-one common stock split effective January 1, 2025. The total number of issued shares at the end of the period, the number of treasury shares at the end of the period and the average number of shares outstanding during the period have been calculated as if this stock split had taken place at the beginning of the fiscal year ended December 31, 2023.

**[Reference] Overview of non-consolidated financial results**

**1. Non-consolidated financial results for the fiscal year ended December 31, 2024**

**(January 1, 2024 – December 31, 2024)**

**(1) Non-consolidated operating results**

(Percentages indicate year-on-year changes.)

Fiscal year ended	Net sales		Operating profit		Ordinary profit		Profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
December 31, 2024	2,418	10.8	134	74.5	189	136.1	149	160.4
December 31, 2023	2,183	39.3	77	(5.4)	80	3.7	57	6.0

Fiscal year ended	Basic earnings per share	Diluted earnings per share
	Yen	Yen
December 31, 2024	39.38	35.75
December 31, 2023	15.28	13.77

Note: Headwaters conducted a two-for-one common stock split effective July 1, 2023 and another two-for-one common stock split effective January 1, 2025. Basic earnings per share and diluted earnings per share have been calculated as if this stock split had taken place at the beginning of the fiscal year ended December 31, 2023.

**(2) Non-consolidated financial position**

	Total assets	Net assets	Equity-to-asset ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
December 31, 2024	1,488	1,107	74.4	291.81
December 31, 2023	1,201	924	76.9	245.62

Reference: Equity As of December 31, 2024: ¥1,107 million As of December 31, 2023: ¥924 million

Note: Headwaters conducted a two-for-one common stock split effective July 1, 2023 and another two-for-one common stock split effective January 1, 2025. Net assets per share have been calculated as if this stock split had taken place at the beginning of the fiscal year ended December 31, 2023.

\* Financial results reports are exempt from audit conducted by certified public accountants or an auditing firm.

\* Proper use of earnings forecasts, and other special matters

Cautionary statement with respect to forward-looking statements

Forecasts and forward-looking statements in these materials are based on assumptions judged to be valid and information available to Headwaters at the time the materials were created. These materials are not promises by Headwaters regarding future performance. Actual performance may differ significantly from these forecasts for a number of reasons. Please refer to “1. Overview of Results of Operations (4) Outlook” on page 5 of the attachments regarding preconditions or other related matters for the forecast shown above.

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## 1. Overview of Results of Operations

### (1) Results of Operations

During the fiscal year ended December 31, 2024 (January 1, 2024 to December 30, 2024), the Japanese economy benefited from a number of positive factors, such as increases in inbound tourist demand and capital investment, as well as the effect of rising wages. Nonetheless, circumstances remain uncertain due to numerous concerns, including changes in the political situation.

In the IT industry in which the Headwaters Group operates, rapid growth is continuing because of many innovations, notably artificial intelligence (AI) and the digital transformation (DX). In particular, the emergence and evolution of generative AI has led to new ways to deal with Japan's falling working age population and other social issues. This technology has also made enormous contributions to creating new business models and promoting innovations. In 2024, generative AI technologies made striking advances, such as multimodal processing for natural languages, images and voice. Technical innovation is leading to new generative AI services that have made gains in processing speed, accuracy, cost and other aspects. However, the Group understands that how to make effective use of big data owned by companies and the potential convenience offered by generative AI remain questions to be answered.

Factors that are likely to increase net sales significantly for 2024 include stable progress in large projects and the receipt of orders on multiple projects from existing customers by strengthening relationships. In addition, steady progress in recruitment will help keep the ratio of outside partners (contractors), which constitute part of the production cost, to a constant level and will contribute significantly to increasing gross profit and operating profit. Since its listing, Headwaters has been pursuing an alliance strategy. It has accelerated the shift to loyal clients and led to a rise in sales per project and per engineer. Generative AI is gradually being incorporated into general system development projects (DX projects) that have been implemented. Steady progress in the wave of AI is a characteristic of 2024.

In the same year, there was non-operating income arising from a gain on the valuation of derivatives. This was a major reason for the increase in ordinary profit. The purchase of derivatives was conducted as part of the stock acquisition associated with the capital and business alliance and as such does not fall under speculative transactions.

The Headwaters Group divides the AI solutions business into the following three service categories.

AI Integration Services:	Consulting and development services for generative AI, edge AI, AI agent, and other fields
DX Services:	Platform development, DX consulting, Azure cloud development, low-code development and other activities
Product Services:	Headwaters services, and licensed and sales agent operations including cloud utilization fees

The state and sales for 2024 by service category are as follows.

#### AI Integration Services

The Group is actively keeping pace with generative AI and other new technologies to provide services and solutions that are used in actual business operations. It holds hands-on workshops for customers referred by alliance strategy partners to provide them with customer-centric development support. "Hands-on" refers to a state in which support is within reach. Together with clients as professionals in their respective fields, the Group's staff members provide onboarding support in the use of new technologies to identify their needs and to share know-how obtained from individual clients to support clients' internal production and digital transformation.

In 2024, projects for the use of big data accounted for a majority of the generative AI projects, and this will continue in the coming years. Clients now offer services with the use of generative AI through a broad array of user interfaces, including online services, smartphone apps and telephone services. In AI Integration Services, proof of concept (PoC) projects were the mainstream in the early days. More recently, production development projects aimed at providing services are steadily increasing.

Moreover, in a situation where improving the accuracy of retrieval-augmented generation (RAG) is a significant challenge in the business use of generative AI, the Group has established a method for providing solutions to these issues and expertise in this area leveraging its top-class project record in Japan. The AI agent, which automatically executes specific tasks using AI, is autonomous, adaptable and interactive, and it has problem-solving capabilities. It is now developed and has found practical application in a number of projects as an effective solution to issues such as the decrease in the working-age population.

On data platforms, clients can manage the large volumes of business data they hold. In collaboration with generative AI, they pave the way for advanced data analysis and visualization. Amid the growing use of generative AI, clients holding original data, for instance, regard the use of data platforms as an important technical element and have significant needs for it. Very few companies are capable of offering one-stop services encompassing everything from consulting services, through planning and proposals on use of generative AI and data, to the design and development of user interfaces that clients will offer. The Group focuses on customer-centric projects, including internal production support through hands-on workshops to develop new businesses for clients and to increase their life time value (LTV). In 2024, sales from AI Integration Services increased 51.8% year on year to 1,451 million yen thanks to higher sales of generative AI products.

#### DX Services

The Group's DX service projects include the development and modernization of platforms for cloud services centered on Microsoft Azure, the replacement of old systems called migration with advanced technologies and approaches for enhancement, consultation on companies' DX initiatives and internal production support using Microsoft Power Platform and other low-code tools.

For 2024, large multi-year projects made steady progress. Efforts to develop new businesses for existing clients led to an increase in cases of winning multiple orders from clients. Meanwhile, popularization of the use of generative AI even in DX service projects means that sales of DX Services are shifting to those of AI Integration Services. Consequently, DX Services sales increased 5.0% year on year, to 1,312 million yen.

#### Product Services

Product Services are operated based on two profit models that are not dependent on person-months.

In-house service model:	initial setup fee plus monthly license fees for the SyncLect in-house service
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Other companies' service model:	cloud service utilization fees (collected monthly) and agency for the purchase and sale of IoT equipment
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In 2024, the Group worked to develop services on the basis of SyncLect Generative AI, a generative AI utilization platform. In collaboration with Microsoft, these services were increasingly introduced to enterprise companies. Product Services sales increased 30.8% year on year, to 142 million yen. This reflected a rise in sales from mobility AI platform projects and from projects in the licensed business model for edge AI typically seen in AI cameras as well as a hike in cloud utilization fees after development based on the Azure Cloud.

As a result, net sales for the fiscal year under review increased 25.5% year on year to 2,905 million yen. Operating profit rose 224.6% to 307 million yen, and ordinary profit climbed 268.7% to 362 million yen. Profit attributable to owners of parent increased 285.9% to 272 million yen.

The Headwaters Group will continue to operate in a single business segment, AI Solutions, with the goal of using AI to provide an even larger lineup and higher level of services for clients.

## **(2) Financial Position**

### **Assets**

Total assets at the end of 2024 stood at 1,800 million yen, an increase of 506 million yen from the end of 2023.

Current assets totaled 1,459 million yen at the end of 2024, an increase of 233 million yen from the end of 2023. This was mainly attributable to increases of 270 million yen in accounts receivable - trade and contract assets, and 32 million yen in prepaid expenses, despite decreases of 54 million yen in cash and deposits and 12 million yen in work in process. Non-current assets increased 272 million yen from the end of 2023, to 340 million yen. This was mainly attributable to increases of 9 million yen in property, plant and equipment, 95 million yen in investment securities and 161 million yen in derivatives despite a decrease of 3 million yen in intangible assets.

### **Liabilities**

Total liabilities at the end of 2024 stood at 527 million yen, an increase of 195 million yen from the end of 2023. This was mainly due to increases of 19 million yen in accounts payable - trade, 7 million yen in accounts payable - other, 42 million yen in accrued expenses, 31 million yen in accrued consumption taxes, 76 million yen in income taxes payable and 10 million yen in deposits received.

### **Net assets**

Total net assets as of the end of 2024 were 1,272 million yen, an increase of 310 million yen from the end of 2023. This was mainly attributable to an increase in retained earnings of 272 million yen resulting from the posting of profit attributable to owners of parent.

## **(3) Cash Flows**

The balance of cash and cash equivalents (hereinafter, “cash”) decreased 54 million yen from the end of 2023 to a total of 843 million yen at the end of 2024.

The following is a summary of cash flows and major factors in 2024.

### **Cash flows from operating activities**

Net cash provided by operating activities was 144 million yen (87 million yen provided in 2023).

This was attributable in large part to 362 million yen in profit before income taxes, 20 million yen in depreciation, an increase of 19 million yen in trade payable, an increase of 42 million yen in accrued expenses and an increase of 31 million yen in accrued consumption taxes, which more than offset an increase of 270 million yen in trade receivables and contract assets, 29 million yen in income taxes paid and 49 million yen in gain on valuation of derivatives.

### **Cash flows from investing activities**

Net cash used in investing activities was 210 million yen (16 million yen used in 2023).

This resulted chiefly from 26 million yen in purchase of property, plant and equipment, 72 million yen in purchase of investment securities, and 112 million yen in purchase of derivatives.



Cash flows from financing activities

Net cash provided by financing activities was 10 million yen (8 million yen provided in 2023).

The major contributing factor was proceeds from issuance of shares of 10 million yen.

#### **(4) Outlook**

The future outlook continues to be uncertain amid political unrest arising from the economic and diplomatic policies of the new U.S. administration as well as the inflation and weak yen in Japan. However, a number of business sectors are seeing a steady recovery, partly thanks to inbound tourist demand. In preparation for the decline in the working-age population and the shortage of personnel with IT skills, the use of generative AI, internal production and streamlining will be essential measures. As such, corporate IT investment is expected to continue to expand.

For generative AI, it is now normal to learn from big data. With the automation achieved from this, AI agents will be incorporated into different systems to accelerate customers' shift to AI and digital transformation. Partially optimized small language models are expected to be introduced to various edge AI terminals. Continued advances in the introduction and use of AI by the corporate sector will further increase sales in AI Integration Services. At the same time, progress in customer-centric hands-on workshops driven by AI Integration Services will enable us to win more multiple orders by strengthening relationships with clients. That will help bolster sales of DX Services and Product Services.

In this situation, recruiting and training activities in 2024 should help increase future sales. The Group views the fiscal year ending December 31, 2025 as a period of proactive investment, and will proactively invest in recruiting and training activities. Given that the effective use of AI in more business types and categories will increase operational efficiency and the capacity to capture customers without relying on work done by people, the Group sees this investment as indispensable for sustained growth and progress on the part of clients. The Group does not view customers' introduction of AI and DX implementation as the ultimate goal. It believes that it is vital to provide close support to them in the form of hands-on workshops for assistance in internal production, including subsequent data utilization and operation. The Group understands that its strength and mission is to offer necessary consultations and system development using new technologies in this process flow according to clients' issues.

Given the above, the Group forecasts consolidated net sales of 4,007 million yen, operating profit of 328 million yen, ordinary profit of 332 million yen, and profit attributable to owners of parent of 237 million yen for 2025.

## **2. Basic Approach for the Selection of Accounting Standards**

The Group has a policy of preparing its consolidated financial statements in accordance with the Japanese generally accepted accounting principles (GAAP) for the time being to facilitate comparisons with prior-year performance and the performance of other companies in Japan.

### 3. Consolidated Financial Statements and Notes

#### (1) Consolidated Balance Sheet

	(Thousands of yen)	
	Fiscal Year 2023 (As of Dec. 31, 2023)	Fiscal Year 2024 (As of Dec. 31, 2024)
Assets		
Current assets		
Cash and deposits	897,899	843,233
Accounts receivable - trade and contract assets	292,365	562,870
Work in process	16,493	3,955
Prepaid expenses	16,840	48,888
Other	2,897	863
Total current assets	1,226,496	1,459,812
Non-current assets		
Property, plant and equipment		
Buildings	16,015	16,015
Tools, furniture and fixtures	40,975	62,805
Accumulated depreciation	(26,473)	(38,801)
Total property, plant and equipment	30,517	40,018
Intangible assets		
Software	13,710	10,048
Total intangible assets	13,710	10,048
Investments and other assets		
Investment securities	-	95,042
Guarantee deposits	18,882	18,262
Long-term prepaid expenses	3	215
Deferred tax assets	4,628	15,161
Derivatives	-	161,827
Total investments and other assets	23,515	290,508
Total non-current assets	67,742	340,576
Total assets	1,294,238	1,800,388

(Thousands of yen)

	Fiscal Year 2023 (As of Dec. 31, 2023)	Fiscal Year 2024 (As of Dec. 31, 2024)
Liabilities		
Current liabilities		
Accounts payable - trade	144,705	164,122
Accounts payable - other	16,852	24,099
Accrued expenses	74,775	117,108
Accrued consumption taxes	46,975	78,968
Income taxes payable	22,531	99,472
Contract liabilities	4,141	8,609
Deposits received	22,247	32,585
Provision for loss on orders received	129	2,826
Total current liabilities	332,358	527,793
Non-current liabilities		
Deferred tax liabilities	220	-
Total non-current liabilities	220	-
Total liabilities	332,579	527,793
Net assets		
Shareholders' equity		
Share capital	369,023	378,338
Capital surplus	359,023	368,338
Retained earnings	230,844	503,632
Treasury shares	(227)	(227)
Total shareholders' equity	958,663	1,250,081
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	-	15,966
Foreign currency translation adjustment	(221)	1,012
Total accumulated other comprehensive income	(221)	16,979
Non-controlling interests	3,216	5,534
Total net assets	961,659	1,272,595
Total liabilities and net assets	1,294,238	1,800,388

**(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income****Consolidated Statement of Income**

(Thousands of yen)

	Fiscal Year 2023 (Jan. 1, 2023 – Dec. 31, 2023)	Fiscal Year 2024 (Jan. 1, 2024 – Dec. 31, 2024)
Net sales	2,315,088	2,905,981
Cost of sales	1,459,999	1,665,908
Gross profit	855,088	1,240,073
Selling, general and administrative expenses	760,227	932,119
Operating profit	94,861	307,954
Non-operating income		
Interest income	8	102
Foreign exchange gains	479	298
Subsidy income	1,260	-
Subsidy income	573	-
Gain on valuation of derivatives	-	49,459
Other	1,118	4,745
Total non-operating income	3,439	54,605
Non-operating expenses		
Other	0	127
Total non-operating expenses	0	127
Ordinary profit	98,300	362,432
Profit before income taxes	98,300	362,432
Income taxes - current	28,384	105,537
Income taxes - deferred	(1,312)	(17,800)
Total income taxes	27,071	87,737
Profit	71,229	274,694
Profit (loss) attributable to non-controlling interests	545	1,907
Profit attributable to owners of parent	70,683	272,787

## Consolidated Statement of Comprehensive Income

(Thousands of yen)

	Fiscal Year 2023 (Jan. 1, 2023 – Dec. 31, 2023)	Fiscal Year 2024 (Jan. 1, 2024 – Dec. 31, 2024)
Profit	71,229	274,694
Other comprehensive income		
Valuation difference on available-for-sale securities	-	15,966
Foreign currency translation adjustment	(294)	1,644
Total other comprehensive income	(294)	17,611
Comprehensive income	70,934	292,306
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	70,462	289,988
Comprehensive income attributable to non-controlling interests	471	2,318

### (3) Consolidated Statement of Changes in Equity

Fiscal Year 2023 (Jan. 1, 2023– Dec. 31, 2023)

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	362,641	352,641	160,160	-	875,442
Changes during period					
Issuance of new shares	6,382	6,382			12,765
Profit attributable to owners of parent			70,683		70,683
Purchase of treasury shares				(227)	(227)
Net changes in items other than shareholders' equity					
Total changes during period	6,382	6,382	70,683	(227)	83,221
Balance at end of period	369,023	359,023	230,844	(227)	958,663

(Thousands of yen)

	Accumulated other comprehensive income			Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of period	-	-	-	-	875,442
Changes during period					
Issuance of new shares					12,765
Profit attributable to owners of parent					70,683
Purchase of treasury shares					(227)
Net changes in items other than shareholders' equity	-	(221)	(221)	3,216	2,995
Total changes during period	-	(221)	(221)	3,216	86,216
Balance at end of period	-	(221)	(221)	3,216	961,659

Fiscal Year 2024 (Jan. 1, 2024 – Dec. 31, 2024)

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	369,023	359,023	230,844	(227)	958,663
Changes during period					
Issuance of new shares	9,314	9,314			18,629
Profit attributable to owners of parent			272,787		272,787
Purchase of treasury shares					-
Net changes in items other than shareholders' equity					
Total changes during period	9,314	9,314	272,787	-	291,417
Balance at end of period	378,338	368,338	503,632	(227)	1,250,081

(Thousands of yen)

	Accumulated other comprehensive income			Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of period	-	(221)	(221)	3,216	961,659
Changes during period					
Issuance of new shares					18,629
Profit attributable to owners of parent					272,787
Purchase of treasury shares					-
Net changes in items other than shareholders' equity	15,966	1,233	17,200	2,318	19,519
Total changes during period	15,966	1,233	17,200	2,318	310,936
Balance at end of period	15,966	1,012	16,979	5,534	1,272,595

**(4) Consolidated Statement of Cash Flows**

(Thousands of yen)

	Fiscal Year 2023 (Jan. 1, 2023 – Dec. 31, 2023)	Fiscal Year 2024 (Jan. 1, 2024 – Dec. 31, 2024)
Cash flows from operating activities		
Profit before income taxes	98,300	362,432
Depreciation	15,173	20,442
Increase (decrease) in provision for loss on orders received	129	2,696
Interest income	(8)	(102)
Decrease (increase) in trade receivables and contract assets	(26,839)	(270,504)
Loss (gain) on valuation of derivatives	-	(49,459)
Decrease (increase) in inventories	(6,214)	12,537
Increase (decrease) in trade payables	(9,504)	19,417
Increase (decrease) in contract liabilities	(4,999)	4,468
Increase (decrease) in accounts payable - other	(2,319)	7,539
Increase (decrease) in accrued expenses	25,909	42,332
Increase (decrease) in accrued consumption taxes	25,835	31,992
Subsidy income	(573)	-
Subsidy income	(1,260)	-
Other, net	7,672	(10,332)
Subtotal	121,300	173,458
Interest received	8	102
Subsidies received	573	-
Subsidies received	1,260	-
Income taxes paid	(35,481)	(29,150)
Net cash provided by (used in) operating activities	87,661	144,409
Cash flows from investing activities		
Purchase of property, plant and equipment	(15,731)	(26,574)
Purchase of investment securities	-	(72,029)
Purchase of derivatives	-	(112,367)
Purchase of intangible assets	(490)	-
Net cash provided by (used in) investing activities	(16,221)	(210,970)
Cash flows from financing activities		
Proceeds from issuance of shares	5,626	10,250
Purchase of treasury shares	(227)	-
Proceeds from share issuance to non-controlling shareholders	2,744	-
Net cash provided by (used in) financing activities	8,143	10,250
Effect of exchange rate change on cash and cash equivalents	(294)	1,644
Net increase (decrease) in cash and cash equivalents	79,288	(54,665)
Cash and cash equivalents at beginning of period	818,610	897,899
Cash and cash equivalents at end of period	897,899	843,233



## (5) Notes to Consolidated Financial Statements

### Going Concern Assumption

Not applicable.

### Segment Information

Segment information

Fiscal Year 2023 (Jan. 1, 2023 – Dec. 31, 2023)

This information is omitted because AI Solutions are the only business of the Headwaters Group.

Fiscal Year 2024 (Jan. 1, 2024 – Dec. 31, 2024)

This information is omitted because AI Solutions are the only business of the Headwaters Group.

Related information

Fiscal Year 2023 (Jan. 1, 2023 – Dec. 31, 2023)

#### 1. Information by product or service

(Thousands of yen)	
Services	Sales to external customers
AI Integration Services	956,313
DX Services	1,250,067
Product Services	108,707
Total	2,315,088

#### 2. Information by region

##### (1) Net sales

This information is omitted since sales to external customers in Japan exceeded 90% of net sales in the consolidated statement of income.

##### (2) Property, plant and equipment

This information is omitted since property, plant and equipment in Japan exceeded 90% of property, plant and equipment in the consolidated balance sheet.

#### 3. Information by major client

(Thousands of yen)	
Client name	Net sales
JAL Information Technology Co., Ltd.	395,918

Fiscal Year 2024 (Jan. 1, 2024 – Dec. 31, 2024)

#### 1. Information by product or service

(Thousands of yen)	
Services	Sales to external customers
AI Integration Services	1,451,702
DX Services	1,312,035
Product Services	142,243
Total	2,905,981

## 2. Information by region

### (1) Net sales

This information is omitted since sales to external customers in Japan exceeded 90% of net sales in the consolidated statement of income.

### (2) Property, plant and equipment

This information is omitted since property, plant and equipment in Japan exceeded 90% of property, plant and equipment in the consolidated balance sheet.

## 3. Information by major client

This information is omitted because no customers account for 10% or more of sales in the consolidated statements of income.

(Information on impairment loss on non-current assets and goodwill, etc. by reportable segment)

Fiscal Year 2023 (Jan. 1, 2023 – Dec. 31, 2023)

Not applicable.

Fiscal Year 2024 (Jan. 1, 2024 – Dec. 31, 2024)

Not applicable.

(Information on the amortization of goodwill and the balance of unamortized goodwill by reportable segment)

Fiscal Year 2023 (Jan. 1, 2023 – Dec. 31, 2023)

Not applicable.

Fiscal Year 2024 (Jan. 1, 2024 – Dec. 31, 2024)

Not applicable.

(Information on gain on bargain purchase by reportable segment)

Fiscal Year 2023 (Jan. 1, 2023 – Dec. 31, 2023)

Not applicable.

Fiscal Year 2024 (Jan. 1, 2024 – Dec. 31, 2024)

Not applicable.

## **Changes in the Method of Presentation**

In the fiscal year ended December 31, 2024, the Headwaters Group revised its service categories. From 2024 onwards, the presentation is based on the new service categories. For the purpose of applying this change in the method presentation, the presentation for the fiscal year ended December 31, 2023 has been changed.

## Per Share Information

(Yen)

	Fiscal Year 2023 (Jan. 1, 2023 – Dec. 31, 2023)	Fiscal Year 2024 (Jan. 1, 2024 – Dec. 31, 2024)
Net assets per share	254.73	333.73
Basic earnings per share	18.85	72.01
Diluted earnings per share	16.99	65.38

Notes: 1. Headwaters conducted a two-for-one common stock split effective July 1, 2023 and another two-for-one common stock split effective January 1, 2025. Net assets per share, basic earnings per share and diluted earnings per share have been calculated as if this stock split had taken place at the beginning of Fiscal Year 2023.

2. Basis for calculation of basic earnings per share and diluted earnings per share is as follows.

	Fiscal Year 2023 (Jan. 1, 2023 – Dec. 31, 2023)	Fiscal Year 2024 (Jan. 1, 2024 – Dec. 31, 2024)
(1) Basic earnings per share		
[Basis for calculation]		
Profit attributable to owners of parent (thousands of yen)	70,683	272,787
Amount not available to common stock shareholders (thousands of yen)	-	-
Profit attributable to owners of parent applicable to common stock (thousands of yen)	70,683	272,787
Average number of shares of common stock outstanding during the period (shares)	3,749,785	3,787,979
(2) Diluted earnings per share		
[Basis for calculation]		
Adjusted profit attributable to owners of parent (thousands of yen)	-	-
Increase in the number of shares of common stock (shares)	410,632	384,362
Summary of dilutive shares not included in the calculation of diluted earnings per share since there was no dilutive effect	-	-

Note: Headwaters conducted a two-for-one common stock split effective July 1, 2023 and another two-for-one common stock split effective January 1, 2025. Basic earnings per share and diluted earnings per share have been calculated as if this stock split had taken place at the beginning of Fiscal Year 2023.

## Significant Subsequent Events

(Stock split and a related amendment to the Articles of Incorporation)

Pursuant to the resolution of the Board of Directors at the meeting held on November 28, 2024, Headwaters conducted a stock split effective January 1, 2025 and partial revision to its Articles of Incorporation in association with the stock split.

### 1. Purpose of the stock split

The purpose of the stock split is to lower the investment unit price to encourage investment. Headwaters aims to increase investors.

Headwaters understands that the transition to the desirable investment unit level requested by the Tokyo Stock Exchange, namely in the range between 50,000 yen and 500,000 yen, is an effective means of encouraging individual investors to participate in the market and of stimulating the stock market. Headwaters will continue to consider this transition in overall consideration of changes in its share price level, the state of circulation, composition of shareholders and other factors.

## 2. Overview of the stock split

### (1) Method of the stock split

Headwaters conducted a 2-for-1 stock split with the record date of December 31, 2024, whereby each share of common stock held by shareholders recorded in the final register of shareholders' lists of the same day was split into two.

### (2) Number of shares increased by the stock split

Number of issued shares before the stock split:	1,898,370 shares
Increase in the number of shares after the stock split:	1,898,370 shares
Total number of shares issued after the stock split:	3,796,740 shares
Total number of shares authorized to be issued after the stock split:	13,164,800 shares

## 3. Partial amendment to the articles of incorporation associated with the stock split

### (1) Reasons for amendment of the Articles of Incorporation

Following the stock split, on January 1, 2025, Headwaters changed the total number of authorized shares prescribed in Article 6 (Total Number of Authorized Shares) of the current Articles of Incorporation pursuant to paragraph (2) of Article 184 of the Companies Act.

### (2) Change in the Articles of Incorporation

The amendments are as follows.

(The changes are underlined.)

Current Articles of Incorporation	Changes Proposed
Article 6 (Total Number of Authorized Shares) The total number of authorized shares of the Company shall be <u>6,582,400</u> .	Article 6 (Total Number of Authorized Shares) The total number of authorized shares of the Company shall be <u>13,164,800</u> .

## 4. Other

### (1) Change in share capital

There is no change in share capital due to the stock split.

### (2) Adjustment of the exercise prices of share option

Following the stock split, the exercise value of share acquisition rights on or after the effective date of January 1, 2025 has been adjusted as follows.

Issue	Date of resolution by the Board of Directors	Exercise value		Number of shares per share acquisition rights	
		Before adjustment	After adjustment	Before adjustment	After adjustment
3rd share acquisition rights	July 15, 2016	625 yen	313 yen	28,000 shares	56,000 shares
4th share acquisition rights	July 15, 2016	625 yen	313 yen	164,800 shares	329,600 shares
5th share acquisition rights	December 1, 2017	938 yen	469 yen	6,800 shares	13,600 shares