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August 14, 2025

Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending December 31, 2025 (Under Japanese GAAP)

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Listing: Tokyo Stock Exchange
Securities code: 4011
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Scheduled date of filing of Semi-annual Report: August 14, 2025
Scheduled date to commence dividend payments: -
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 second quarter of the fiscal year ending December 31, 2025 (January 1, 2025 – June 30, 2025)

(1) Consolidated operating results (Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Six months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
June 30, 2025	1,637	22.9	(24)	-	(75)	-	(52)	-
June 30, 2024	1,332	15.1	151	223.4	150	214.4	100	234.7

Note: Comprehensive income For the six months ended June 30, 2025: ¥(66) million [-%]
For the six months ended June 30, 2024: ¥103 million [up 240.0%]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
June 30, 2025	(13.85)	-
June 30, 2024	26.72	24.20

Notes: 1. Headwaters conducted a two-for-one common stock split on 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, 2024.
2. Diluted earnings per share for the six months ended June 30, 2025 is not indicated because there was a loss per share although dilutive shares exist.

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
As of	Millions of yen	Millions of yen	%
June 30, 2025	1,662	1,214	72.3
December 31, 2024	1,800	1,272	70.4

Reference: Equity As of June 30, 2025: ¥1,203 million As of December 31, 2024: ¥1,267 million

2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2024	-	0.00	-	0.00	0.00
Fiscal year ending December 31, 2025	-	0.00			
Fiscal year ending December 31, 2025 (Forecast)			-	0.00	0.00

Note: Revisions to the most recently announced dividend forecast: None

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)	62.43

Note: Revisions to the most recently announced consolidated forecast: None

*** Notes**

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

Newly included: - Excluded: -

(2) Application of special accounting methods for presenting consolidated interim financial statements: None

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

(i) Changes in accounting policies due to revisions to accounting standards and other regulations: Yes

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

(iii) Changes in accounting estimates: None

(iv) Restatement: None

(4) Number of issued shares (common stock)

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

As of June 30, 2025	3,799,344 shares
As of December 31, 2024	3,796,740 shares

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

As of June 30, 2025	104 shares
As of December 31, 2024	84 shares

(iii) Average number of shares outstanding during the period

Six months ended June 30, 2025	3,797,361 shares
Six months ended June 30, 2024	3,779,203 shares

* The current financial report is not subject to quarterly (semi-annual) review by certified public accountants or auditing firms.

* Proper use of earnings forecasts, and other special matters

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. Qualitative Information on Quarterly Consolidated Financial Performance (3) Explanation of Consolidated Earnings Forecasts and Other Forward-looking Statements” on page 5 of the attachments regarding preconditions or other related matters for the forecast shown above.

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1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

During the first half of the fiscal year ending December 31, 2025 (January 1, 2025 to June 30, 2025), the Japanese economy continued to recover modestly, supported by improvements in the employment and income environments and the effects of various government policies. Nonetheless, the future remains uncertain, given concerns such as soaring commodity and other prices and the impact of the U.S. trade policies on the global economy.

The IT industry, in which the Headwaters Group operates, has continued to grow steadily, reflecting many innovations, notably artificial intelligence (AI) and the digital transformation (DX). In particular, the emergence and evolution of generative AI and AI agents are leading to new ways to deal with Japan's falling working age population and other social issues. These technologies are also making contributions to creating new business models and promoting innovations.

During the first half of 2025, the technological advances in generative AI and AI agents were remarkable. Regarding AI-driven development (vibe coding), which has begun to be used mainly by IT engineers, the Group is working on validation for the purpose of improving productivity. The validation has found that using AI for certain processes of Headwaters in-house service development (including code generation, implementation of new functions, bug survey and analysis, creation of specifications, code review, test code creation, and creation of operational design documents) is likely to reduce labor by 30% to 92%. However, new points needing improvement began to be identified in the process of introduction. By addressing these points, the Group has been building a more efficient, stable development system.

Moreover, the Group is using Microsoft Copilot and other AI assistants to streamline planning, proposal, research, and sales activities, among other tasks. The Group uses the expertise it gains through these initiatives to provide support for clients' in-house production, workshops, hackathons, and other activities. It has expanded them into onboarding activities for instilling in work sites the value and use cases of new technologies.

However, the Group currently faces the important issue of how to integrate the vast amount of data owned by companies with the convenience of generative AI and AI agents for practical application. Action needs to be taken in multiple aspects, including data quality control, security, integrity with business processes, and skill sets of human resources. Ongoing consideration and initiatives are needed.

The Headwaters Group has been stepping up its sales activities and reviewing its client groups to address the issue of seasonal fluctuations, which became significant in the first half of the previous fiscal year. The Group has shifted its main target clients to loyalty clients with sales of 1 trillion yen or more, and has set up a BizDev team with Headwaters Consulting, enhancing proposal and sales activities for projects to be launched in April or later, in addition to deepening relations with existing clients. The Group ran a booth at Microsoft AI Tour Tokyo held in March, which was hosted by Microsoft. This has bolstered the Group's presence, which has led to progress in the reinforcement of alliance structure for winning accounts. As a result, the Group has continued to receive many projects on referral from Microsoft, and has been implementing projects by demonstrating its ability to provide support and on-site solutions, in addition to making plans and proposals based on its track record.

During the first half of 2025, the conversion of clients into loyalty clients, a key initiative for the Group in recent years in the two service categories of AI Integration Services and DX Services, contributed significantly to the increase in unit sales prices. In the AI solutions business, demand has grown across a broad range of industries, and multiple projects are being carried out in parallel.

Non-operating expenses arising from a loss on valuation of derivatives was also generated in the first half of 2025. The purchase of derivatives was conducted as part of the stock acquisition associated with the capital and business alliance in 2024 and as such does not fall under speculative transactions.

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

- AI Integration Services: Consulting and development services for AI agents, Microsoft Copilot, edge AI, data platform construction, and other services
- DX Services: Platform development, DX consulting, Azure cloud development, low-code development and other activities
- Product Services: Headwaters services, sales agent operations including cloud utilization fees

AI Integration Services

The Group has been expanding its service lineup for generative AI and AI agents in addition to projects related to IoT-based edge AI and small scale language models (SLM). Consequently, the Group is focusing its efforts on advancing projects using generative AI and AI agents, in an effort to reinforce its systems enabling it to respond flexibly to client needs and to expand its technological domains.

Specifically, the Group provided a solution using edge AI cameras to the year 2024 problem in the logistics industry. It has also provided a solution in the offline environment, which improves work efficiency by using small scale language models (SLM). For the financial and manufacturing industries, the Group provides technical consulting related to planning and architecture, in addition to holding workshops and hackathons targeting the business use of AI agents. It is also running multiple AI-agent-related projects targeting client services and business use.

Meanwhile, in response to an increase in business with enterprises, the Group handles vast amounts of client business data on the data platform, which enables efficient learning by generative AI and AI agents. For data analysis and visualization on the platform and development using generative AI and AI agents, the Group has built a system that enables it to provide a comprehensive lineup of services. These serves range from those in the planning and proposal phase, including facilitating understanding of technologies and creating business ideas through workshops, hackathons, and other events, to the provision of deliverables with sufficient accuracy and quality, and further, to the implementation of projects with clients including support for a shift to in-house production. Through these initiatives, the Headwaters Group has earned a strong reputation from clients as a rare entity that has both technological and practical capabilities in the business use of generative AI and AI agents.

In the first half of 2025, sales from AI Integration Services increased 54.1% year on year to 1,032 million yen thanks to the growth of generative AI projects and the expansion of sales of edge AI projects.

DX Services

The Group's DX service projects include platform development for cloud services centered on Microsoft Azure, consultation for companies' DX initiatives, and low-code development to improve operational efficiency. We primarily provide services such as modernization, which entails updates and improvements to old systems using the latest technologies and methods, and support for the internalization of various processes using Microsoft Power Platform and other low-code tools. Companies' actions for DX have steadily continued from the first half of 2024.

During the first half of 2025, some DX service projects transitioned to development and operation projects using generative AI and AI agents, and sales also moved from the sales category of DX Services to that of AI Integration Services. As a consequence, sales of DX Services decreased 7.9% year on year, to 551 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
- Other companies' service model: cloud service utilization fees (collected monthly) and agency model for the purchase and sale of IoT equipment

During the first half of 2025, the Group pressed ahead with the development of services focused on SyncLect Generative AI, a generative AI utilization platform, and SyncLect AI Agent, an AI agent utilization platform. At present, groups of clients who make upfront investments in new technological domains such as generative AI and AI agents tend to attach more importance to individually customized development than to the use of products. Accordingly, in the first half of 2025, sales of many generative AI and AI agent projects were posted as sales of AI Integration Services. The Group expects that steadily reflecting information about client needs and expertise acquired through these projects in SyncLect services will lead to an increase in the number of companies introducing AI agents and to the generalized use of multi-agent systems. The Group intends to ensure that the SyncLect services, for which it is absorbing knowledge at present, contribute to sales increase with a license model as one-size-fits-all services that do not need customization.

The first half of 2025 was a period for improving product functions, and Product Services sales decreased 14.6% year on year, to 53 million yen.

As a result, net sales for the first half of 2025 increased 22.9% year on year, to 1,637 million yen. The Group posted an operating loss of 24 million yen (operating profit of 151 million yen in the first half of 2024), an ordinary loss of 75 million yen (ordinary profit of 150 million yen in the first half of 2024), and a loss attributable to owners of parent of 52 million yen (profit attributable to owners of parent of 100 million yen in the first half of 2024).

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) Explanation of Financial Position

(i) Assets, liabilities and net assets

Assets

Total assets at the end of the first half of 2025 stood at 1,662 million yen, a decrease of 137 million yen from the end of 2024.

Current assets totaled 1,363 million yen at the end of the first half of 2025, a decrease of 96 million yen from the end of 2024. This was mainly due to a decrease of 102 million yen in accounts receivable - trade and contract assets, partially offset by an increase of 6 million yen in work in process. Non-current assets dropped 40 million yen from the end of 2024, to 299 million yen. This mainly reflected a decrease of 41 million yen in investment and other assets.

Liabilities

Total liabilities at the end of the first half of 2025 stood at 448 million yen, a decrease of 79 million yen from the end of 2024. This was largely due to a decrease of 91 million yen in income taxes payable, despite an increase of 17 million yen in accounts payable - other.

Net assets

Total net assets at the end of the first half of 2025 were 1,214 million yen, a decrease of 57 million yen from the end of 2024. This was mainly attributable to a decrease in retained earnings of 52 million yen resulting from the posting of loss attributable to owners of parent.

(ii) Cash flows

The balance of cash and cash equivalents (hereinafter, “cash”) decreased 10 million yen from the end of 2024 to a total of 833 million yen at the end of the first half of 2025.

The following is a summary of cash flows and major factors in the first half of 2025.

Cash flows from operating activities

Net cash provided by operating activities was 2 million yen (202 million yen provided in the first half of 2024).

This was mainly due to subsidies received of 1 million yen.

Cash flows from investing activities

Net cash used in investing activities was 8 million yen (11 million yen used in the first half of 2024).

This was a result mainly of 8 million yen for the purchase of property, plant and equipment.

Cash flows from financing activities

No cash flow was generated from financing activities.

(3) Explanation of Consolidated Earnings Forecasts and Other Forward-looking Statements

No change has been made to the earnings forecasts announced on February 14, 2025.

2. Interim Consolidated Financial Statements and Notes

(1) Interim Consolidated Balance Sheet

(Thousands of yen)

	Fiscal Year 2024 (As of Dec. 31, 2024)	Second quarter of Fiscal Year 2025 (As of Jun. 30, 2025)
Assets		
Current assets		
Cash and deposits	843,233	833,098
Accounts receivable - trade and contract assets	562,870	460,367
Work in process	3,955	10,764
Advance payments to suppliers	-	5,247
Prepaid expenses	48,888	52,643
Other	863	1,169
Total current assets	1,459,812	1,363,290
Non-current assets		
Property, plant and equipment	40,018	42,243
Intangible assets	10,048	8,218
Investments and other assets		
Derivatives	161,827	105,191
Other	128,681	143,990
Total investments and other assets	290,508	249,182
Total non-current assets	340,576	299,643
Total assets	1,800,388	1,662,934
Liabilities		
Current liabilities		
Accounts payable - trade	164,122	198,396
Accounts payable - other	24,099	41,573
Accrued expenses	117,108	125,851
Accrued consumption taxes	78,968	33,041
Income taxes payable	99,472	8,224
Contract liabilities	8,609	1,732
Deposits received	32,585	39,236
Provision for loss on orders received	2,826	-
Total current liabilities	527,793	448,057
Total liabilities	527,793	448,057
Net assets		
Shareholders' equity		
Share capital	378,338	382,875
Capital surplus	368,338	372,875
Retained earnings	503,632	451,024
Treasury shares	(227)	(227)
Total shareholders' equity	1,250,081	1,206,548
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	15,966	(1,924)
Foreign currency translation adjustment	1,012	(1,564)
Total accumulated other comprehensive income	16,979	(3,488)
Non-controlling interests	5,534	11,817
Total net assets	1,272,595	1,214,877
Total liabilities and net assets	1,800,388	1,662,934

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

Interim Consolidated Statement of Income

(Thousands of yen)

	First six months of Fiscal Year 2024 (Jan. 1, 2024 – Jun. 30, 2024)	First six months of Fiscal Year 2025 (Jan. 1, 2025 – Jun. 30, 2025)
Net sales	1,332,685	1,637,995
Cost of sales	742,010	924,310
Gross profit	590,674	713,685
Selling, general and administrative expenses	439,550	738,064
Operating profit (loss)	151,124	(24,379)
Non-operating income		
Interest income	4	427
Foreign exchange gains	-	3,191
Subsidy income	-	1,580
Other	47	314
Total non-operating income	52	5,512
Non-operating expenses		
Foreign exchange losses	660	-
Loss on valuation of derivatives	-	56,635
Other	40	-
Total non-operating expenses	700	56,635
Ordinary profit (loss)	150,475	(75,501)
Profit (loss) before income taxes	150,475	(75,501)
Income taxes - current	50,332	3,738
Income taxes - deferred	(1,224)	(33,774)
Total income taxes	49,108	(30,035)
Profit (loss)	101,366	(45,466)
Profit attributable to non-controlling interests	390	7,141
Profit (loss) attributable to owners of parent	100,976	(52,607)

Interim Consolidated Statement of Comprehensive Income

(Thousands of yen)

	First six months of Fiscal Year 2024 (Jan. 1, 2024 – Jun. 30, 2024)	First six months of Fiscal Year 2025 (Jan. 1, 2025 – Jun. 30, 2025)
Profit (loss)	101,366	(45,466)
Other comprehensive income		
Valuation difference on available-for-sale securities	-	(17,890)
Foreign currency translation adjustment	1,685	(3,436)
Total other comprehensive income	1,685	(21,327)
Comprehensive income	103,052	(66,793)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	102,240	(73,076)
Comprehensive income attributable to non-controlling interests	811	6,282

(3) Interim Consolidated Statement of Cash Flows

(Thousands of yen)

	First six months of Fiscal Year 2024 (Jan. 1, 2024 – Jun. 30, 2024)	First six months of Fiscal Year 2025 (Jan. 1, 2025 – Jun. 30, 2025)
Cash flows from operating activities		
Profit (loss) before income taxes	150,475	(75,501)
Depreciation	7,987	11,231
Increase (decrease) in provision for loss on orders received	829	(2,826)
Interest income	(4)	(427)
Decrease (increase) in trade receivables and contract assets	(3,516)	102,502
Loss (gain) on valuation of derivatives	-	56,635
Decrease (increase) in inventories	4,781	(6,808)
Decrease (increase) in prepaid expenses	(10,367)	-
Increase (decrease) in trade payables	17,304	34,273
Increase (decrease) in contract liabilities	18,870	(6,876)
Increase (decrease) in accounts payable - other	14,098	14,698
Increase (decrease) in accrued expenses	17,618	8,742
Increase (decrease) in accrued consumption taxes	(4,885)	(45,927)
Subsidy income	-	(1,580)
Increase (decrease) in other current liabilities	5,448	-
Decrease (increase) in other current assets	(511)	-
Other, net	(199)	3,367
Subtotal	217,929	91,505
Interest received	4	427
Subsidies received	-	1,580
Income taxes paid	(15,480)	(91,380)
Net cash provided by (used in) operating activities	202,453	2,132
Cash flows from investing activities		
Purchase of property, plant and equipment	(11,372)	(8,850)
Net cash provided by (used in) investing activities	(11,372)	(8,850)
Cash flows from financing activities		
Proceeds from issuance of shares	10,250	-
Net cash provided by (used in) financing activities	10,250	-
Effect of exchange rate change on cash and cash equivalents	1,685	(3,416)
Net increase (decrease) in cash and cash equivalents	203,016	(10,134)
Cash and cash equivalents at beginning of period	897,899	843,233
Cash and cash equivalents at end of period	1,100,915	833,098

(4) Notes to Interim Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Changes in Accounting Policies

(Application of Accounting Standard for Current Income Taxes, etc.)

Headwaters has applied Accounting Standard for Current Income Taxes (Accounting Standards Board of Japan (ASBJ) Statement No. 27, October 28, 2022; hereinafter referred to as the "Revised Accounting Standard 2022") effective from beginning of the first half of 2025.

The amendment to categories in which current income taxes should be recorded (taxes on other comprehensive income) follows the transitional treatment prescribed in the proviso of paragraph 20-3 of the Revised Accounting Standard 2022 and the transitional treatment prescribed in the proviso (2) of paragraph 65-2 of the Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No. 28, October 28, 2022; hereinafter referred to as the "Revised Implementation Guidance 2022"). This change in accounting policy has no impact on the interim consolidated financial statements.

For the amendment related to the revised accounting treatment for consolidated financial statements when gains or losses on sale of shares in subsidiaries resulting from transactions between consolidated companies were deferred for tax purposes, the Revised Implementation Guidance 2022 has been applied since the beginning of the first half of 2025. This change in accounting policies is applied retrospectively, and the interim and fiscal year consolidated financial statements for the previous fiscal year presented herein reflect the retrospective application of this standard. This change in accounting policy has no impact on the interim and fiscal year consolidated financial statements for the previous fiscal year.

Segment Information

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

Significant Subsequent Events

(Acquisition of shares of a company, making it an equity-method affiliate)

Headwaters resolved, at a meeting of the Board of Directors held on August 14, 2025, to acquire shares of BBD Initiative Inc. (1,599,100 shares, 26.1%) and make it an equity method affiliate. It concluded a share transfer agreement on the same date, planning to acquire the shares on August 29, 2025. This will make BBD Initiative an equity-method affiliate of Headwaters.

(1) Purpose of the acquisition of shares

Headwaters works on artificial intelligence (AI) transformation, SyncLect multi-AI platform, and other AI solutions, as well as DX consulting, support for the construction of cloud computing platforms, and other services. In particular, it has Japan's No. 1 implementation capability in the Data & AI domain of Microsoft, and boasts advanced technological capabilities and an extensive track record. For instance, it won the AI Innovation Partner of the Year Award at the Microsoft Japan Partner of the Year 2024. Headwaters also excels in high-precision AI agents and technologies for automating workflow (percentage of correct answers: 99%) that it developed on its own. Headwaters has been supporting the introduction of advanced AI by mainly targeting major enterprises. However, it has faced challenges in having its SaaS products for small and medium enterprises introduced by more companies. It has therefore been seeking sales channels that will enable it to reach a wider range of companies.

Meanwhile, BBD Initiative Inc. provides DX support (system development and SES), BPO services, and subscription-based services. It mainly targets the market of small and medium enterprises with 999 or fewer employees each (approx. 1.7 million companies). It focuses on increasing average revenue per account (ARPA), proposing complex services and enhancing peripheral services through M&A. Reflecting strong demand for SES and BPO, this company has more than 200 engineers. BBD Initiative Inc. was seeking a way to use AI technologies, aiming to provide services with higher added value.

The two companies have decided to form this capital and business alliance to combine their strengths (Headwaters' capability of implementing advanced AI and BBD Initiative's extensive customer base of small- and medium-sized enterprises) and to overcome the respective challenges they face (namely, Headwaters' need to expand its sales channels and BBD Initiative's need to increase the added value of its services), with the aim of achieving their shared vision: A next-generation workstyle with co-creation by people and AI, originating from Japan.

(2) Name of the shareholder from which the Company will acquire shares

Tatsuro Kiyohara

(3) Overview of the company to be acquired

Name	BBD Initiative Inc.
Address	2-5-1 Atago, Minato-ku, Tokyo
Representative	Yuichi Inaba, President and Representative Director, Group CEO
Business	Digital Transformation Business Business Processing Outsourcing Business
Share capital	1,176,526 thousand yen
Established	April 3, 2023

(4) Timing of share acquisition

August 29, 2025 (tentative)

(5) Number of shares to be acquired, acquisition value and shareholding ratio after acquisition

Number of shares acquired	1,599,100 shares
Acquisition price	Not disclosed, given the strong request of the company to be acquired
Shareholding ratio after acquisition	26.1%

(6) Fund procurement method and payment method

Borrowings from financial institutions

(Borrowing of a large amount of funds)

Headwaters resolved, at a meeting of the Board of Directors held on August 14, 2025, to sign a loan agreement with Mizuho Bank, Ltd. under the following terms for the purpose of procuring the funds to acquire shares of BBD Initiative Inc.

(1) Borrowing amount	1,900,000 thousand yen (plan)
(2) Borrowing rate	Base rate + spread
(3) Borrowing date	August 29, 2025
(4) Repayment date	August 29, 2026
(5) Repayment method	Lump-sum repayment on the due date
(6) Security provided	BBD Initiative Inc.