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February 13, 2026

## Consolidated Financial Results for the Fiscal Year Ended December 31, 2025 (Under Japanese GAAP)

Company name: Headwaters Co., Ltd.  
Listing: Tokyo Stock Exchange  
Securities code: 4011  
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Representative: Yosuke Shinoda, Representative Director  
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Scheduled date of annual general meeting of shareholders: March 27, 2026  
Scheduled date to commence dividend payments: -  
Scheduled date to file annual securities report: March 27, 2026  
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, 2025 (January 1, 2025 – December 31, 2025)

#### (1) Consolidated operating results

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal year ended December 31, 2025	3,900	34.2	229	(25.6)	128	(64.5)	57	(78.9)
December 31, 2024	2,905	25.5	307	224.6	362	268.7	272	285.9

Note: Comprehensive income For the fiscal year ended December 31, 2025: ¥58 million [down 80.2%]  
For the fiscal year ended December 31, 2024: ¥292 million [up 312.1%]

	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, 2025	15.13	13.84	4.4	4.5	5.9
December 31, 2024	72.01	65.38	24.5	23.4	10.6

Reference: Share of profit (loss) of entities accounted for using equity method  
For the fiscal year ended December 31, 2025: ¥(40) million  
For the fiscal year ended December 31, 2024: ¥- million

Note: 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 under the assumption that this stock split was conducted at the beginning of the fiscal year ended December 31, 2024.

#### (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, 2025	3,849	1,353	34.5	345.93
December 31, 2024	1,800	1,272	70.4	333.73

Reference: Equity As of December 31, 2025: ¥1,329 million As of December 31, 2024: ¥1,267 million

Note: Headwaters conducted a two-for-one common stock split on 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, 2024.

### (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, 2025	(38)	(2,094)	1,914	625
December 31, 2024	144	(210)	10	843

### 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			
Fiscal year ended December 31, 2024	Yen -	Yen 0.00	Yen -	Yen 0.00	Yen 0.00	Millions of yen -	% -	% -
Fiscal year ended December 31, 2025	-	0.00	-	0.00	0.00	-	-	-
Fiscal year ending December 31, 2026 (Forecast)	-	0.00	-	0.00	0.00		-	

### 3. Consolidated forecast for the fiscal year ending December 31, 2026 (January 1, 2026 – December 31, 2026)

(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	5,764	47.8	436	90.4	411	220.4	231	302.4	60.90

\* **Notes**

(1) Significant changes in the scope of consolidation during the period: Yes

Newly included: 1 (LogTech Corporation) Excluded: -

Note: For more information, please refer to “3. Consolidated Financial Statements and Notes, (5) Notes to Consolidated Financial Statements, Changes in Significant Subsidiaries during the Period” on page 13 of this document.

(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: Yes

(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, 2025	3,844,144 shares
As of December 31, 2024	3,796,740 shares

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

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

(iii) Average number of shares outstanding during the period

Fiscal year ended December 31, 2025	3,809,484 shares
Fiscal year ended December 31, 2024	3,787,979 shares

Note: Headwaters conducted a two-for-one common stock split on 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, 2024.

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

**1. Non-consolidated financial results for the fiscal year ended December 31, 2025  
(January 1, 2025 – December 31, 2025)**

**(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, 2025	3,009	24.4	74	(44.8)	11	(93.8)	(5)	-
December 31, 2024	2,418	10.8	134	74.5	189	136.1	149	160.4

Fiscal year ended	Basic earnings per share	Diluted earnings per share
	Yen	Yen
December 31, 2025	(1.46)	-
December 31, 2024	39.38	35.75

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 fiscal year ended December 31, 2025 are not indicated because there was a loss per share although dilutive shares exist.

**(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, 2025	3,440	1,106	32.2	287.83
December 31, 2024	1,488	1,107	74.4	291.81

Reference: Equity As of December 31, 2025: ¥1,106 million As of December 31, 2024: ¥1,107 million

Note: Headwaters conducted a two-for-one common stock split on 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, 2024.

\* 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 4 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, 2025 (January 1, 2025 to December 31, 2025), the Japanese economy was affected by domestic companies revising export prices, controlling costs, and rebuilding supply chains in response to the protectionist trade policies announced by the U.S. government. This also affected the IT industry in which the Headwaters Group operates. In a section of the industry, development and investment projects were cancelled or postponed. Further, companies are increasingly careful when making investment decisions, partly due to the trend in the Bank of Japan's interest rate policies, the globally rising prices of resources and raw materials, and growing geopolitical risks, in addition to persistently high prices. Due to these factors, the future of the Japanese economy has remained uncertain.

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-based AI agents has led to new ways to address Japan's decreasing working age population and other social issues. This technology has also contributed enormously to the creation of new business models and the promotion of innovation.

In the Group's business fields, AI agent-related technologies are advancing at a remarkable pace with the use of multimodal processing on the back of the progress of generative AI technologies. In line with this, a series of related services with enhanced processing speed and accuracy and reduced cost have been created. At the same time, the Group recognizes that how the large volume of data possessed by companies and AI agent technologies should be connected to business operations and management decisions to create effective results is a challenge that remains to be solved.

In line with the alliance strategy that the Group has been pursuing since its stock was listed, there has been steady progress in customers' introduction of enterprise-level solutions. The Group identifies companies with annual sales of 1 trillion yen or more as its main targets, and the number of these customers is steadily increasing. Amid the trend of shifting from generative AI to AI agents, the Group made progress in the expansion of its alliance partners and the organization of them in line with the Group's growth. Accordingly, its ability to respond to market needs has increased. As in the previous fiscal year, the Group formed capital and business alliances and made selective intensive investments aimed at business expansion. As a result, 2025 was a year for reinforcement of the Group's structure for future growth.

During 2025, there was non-operating loss arising from a loss on valuation of derivatives. 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 for AI agents, AI-driven development, data platform development, physical AI and other fields
- DX Services: Azure cloud development, app development, DX consulting, 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 2025 by service category are as follows.

#### AI Integration Services

The Group is actively keeping pace with AI agents 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. The Group has long been providing customer-centric development support. Recently, this has taken the form of forward-deployed engineering (FDE). The combination of

FDE and technologies enables the Group to provide support in its unique customer-centric style under the X-Tech FDE branding. The Group's staff members provide onboarding support using new technologies to understand the needs of workers and share expertise obtained from individual clients. They then help clients with internal production and digital transformation processes.

During 2025, a majority of the projects were related to AI agents. They have been classified into several types, such as AI-based workflow (agentic workflow) projects, data platform projects aimed at data utilization and projects for improving retrieval augmented generation (RAG) accuracy.

Very few companies are able to provide comprehensive services spanning the entire range from consulting activities (including the planning and development of proposals for projects) to the design and development of customer-provided user interfaces. 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 2025, sales from AI Integration Services increased 80.9% year on year to 2,626 million yen thanks to higher sales of generative AI projects.

#### DX Services

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

During 2025, there was progress in large multi-year projects. Meanwhile, popularization of the use of AI even in DX service projects means that sales of DX services are shifting to those of AI integration services. Consequently, DX Services sales decreased 11.0% year on year to 1,167 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 for the purchase and sale of IoT equipment

In 2025, the Group developed services with a focus on SyncLect Generative AI, a generative AI utilization platform. Product Services sales are largely constituted by mobility AI platform projects and projects in the licensed business model for edge AI typically used in AI cameras, and cloud utilization fees increased due to Azure cloud-based development. As a result, Product Services sales decreasing 25.2% year on year to 106 million yen.

As a result, net sales for 2025 increased 34.2% year on year to 3,900 million yen. Operating profit decreased 25.6% to 229 million yen, and ordinary profit decreased 64.5% to 128 million yen. Profit attributable to owners of parent decreased 78.9% to 57 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 2025 stood at 3,849 million yen, an increase of 2,049 million yen from the end of 2024.

Current assets totaled 1,580 million yen at the end of 2025, an increase of 120 million yen from the end of 2024. This was mainly due to increases of 265 million yen in accounts receivable - trade and contract assets, 13 million yen in work in process, 30 million yen in advance payments to suppliers and 6 million yen in prepared expenses, despite a decrease of 218 million yen in cash and deposits. Non-current assets increased 1,928 million yen from the end of 2024 to 2,269 million yen. This was mainly due to a 154 million yen increase in goodwill and a 1,870 million yen increase in shares of subsidiaries and associates.

## Liabilities

Total liabilities at the end of 2025 stood at 2,496 million yen, an increase of 1,968 million yen from the end of 2024. This was largely due to increases of 51 million yen in accounts payable - trade, 1,900 million yen in short-term borrowings, 23 million yen in accounts payable - other and 83 million yen in accrued expenses, which were partly offset by a decrease of 95 million yen in income taxes payable.

For 2025, the ratio of current assets to current liabilities stood at 63.4%. Headwaters recognizes a situation where there are significant doubts regarding its going concern assumption. This is due chiefly to the 1,900 million yen of short-term borrowings to acquire shares of subsidiaries and associates. These short-term borrowings were obtained on the condition that they would be refinanced as long-term borrowings one year after they were borrowed from the financial institution, and Headwaters believes that there are no significant uncertainties regarding its going concern assumption.

## Net assets

Total net assets as of the end of 2025 were 1,353 million yen, an increase of 81 million yen from the end of 2024. This was mainly attributable to increases in share capital of 11 million yen, capital surplus of 11 million yen and retained earnings of 57 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 218 million yen from the end of 2024 to a total of 625 million yen at the end of 2025.

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

#### Cash flows from operating activities

Net cash used in operating activities was 38 million yen (144 million yen provided in 2024).

This was attributable in large part to an increase of 231 million yen in trade receivables and contract assets and 148 million yen in income taxes paid, which more than offset 128 million yen in profit before income taxes, 27 million yen in depreciation, an increase of 47 million yen in trade payables, an increase of 40 million yen in share of loss (profit) of entities accounted for using equity method, an increase of 65 million yen in accrued expenses and 58 million yen in loss on valuation of derivatives.

#### Cash flows from investing activities

Net cash used in investing activities was 2,094 million yen (210 million yen used in 2024).

This resulted chiefly from 21 million yen in purchase of property, plant and equipment, and 1,910 million yen in purchase of shares of subsidiaries and associates.

#### Cash flows from financing activities

Net cash provided by financing activities was 1,914 million yen (10 million yen provided in 2024).

The major contributing factor was an increase of 1,900 million yen in short-term borrowings.

### **(4) Outlook**

Regarding the future global economy, major countries around the world are continuing their policies to protect their own industries and strengthen their own supply networks. Nationalism continues to gain momentum. This policy trend may affect corporate investments and the international trade environment. At the same time, movement toward the reorganization of regional economies and the creation of new business opportunities has been observed.

The business environment surrounding the Headwaters Group is characterized by the advancement of generative AI technologies and the resulting rapid increase in the utilization of AI agents. AI agents have many different applications, including supporting the automation of business processes and decision making in technical fields. They have the potential to help improve corporate productivity. The Headwaters Group will actively use AI agents to increase its business efficiency and plan and provide new services while keeping a close eye on related technological trends.

In this environment, the Group expects that the mergers, acquisitions and capital and business alliances implemented in 2025 will help increase sales in the future. The Group defines the fiscal year ending December 31, 2026 as a period of proactive investment. It will continue to invest proactively in training and recruiting activities. The Group believes that these investments are a necessary part of the development of its client companies, given that effective use of AI in many types of industries and businesses will pave the way toward the increase in operational efficiency and the capacity to capture customers without relying on work done by people.

The Group does not see its final goal as simply clients introducing AI and implementing their digital transformation. It emphasizes helping clients with internal production including data utilization and operation after the introduction of AI. Accordingly, the Group believes that its strength and mission is ensuring that its employees provide solutions tailored to clients' issues by consulting as necessary and using new technologies as cross-tech forward deployed engineers (X-Tech FDEs).

Given the above, the Group forecasts consolidated net sales of 5,764 million yen, operating profit of 436 million yen, ordinary profit of 411 million yen, and profit attributable to owners of parent of 231 million yen for 2026.

## **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 2024 (As of Dec. 31, 2024)	Fiscal Year 2025 (As of Dec. 31, 2025)
Assets		
Current assets		
Cash and deposits	843,233	625,145
Accounts receivable - trade and contract assets	562,870	828,670
Work in process	3,955	17,349
Advance payments to suppliers	-	30,250
Prepaid expenses	48,888	55,715
Other	863	23,672
Allowance for doubtful accounts	-	(200)
Total current assets	1,459,812	1,580,604
Non-current assets		
Property, plant and equipment		
Buildings	16,015	16,015
Tools, furniture and fixtures	62,805	87,352
Accumulated depreciation	(38,801)	(60,876)
Total property, plant and equipment	40,018	42,490
Intangible assets		
Software	10,048	7,136
Goodwill	-	154,603
Total intangible assets	10,048	161,740
Investments and other assets		
Investment securities	95,042	67,524
Shares of subsidiaries and associates	-	1,870,609
Guarantee deposits	18,262	18,448
Long-term prepaid expenses	215	709
Deferred tax assets	15,161	4,516
Derivatives	161,827	103,230
Total investments and other assets	290,508	2,065,037
Total non-current assets	340,576	2,269,268
Total assets	1,800,388	3,849,872

(Thousands of yen)

	Fiscal Year 2024 (As of Dec. 31, 2024)	Fiscal Year 2025 (As of Dec. 31, 2025)
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable - trade	164,122	216,057
Short-term borrowings	-	1,900,000
Accounts payable - other	24,099	47,122
Accrued expenses	117,108	200,230
Accrued consumption taxes	78,968	82,601
Income taxes payable	99,472	4,018
Contract liabilities	8,609	1,286
Deposits received	32,585	41,311
Provision for loss on orders received	2,826	1,140
Other	-	14
<b>Total current liabilities</b>	<b>527,793</b>	<b>2,493,782</b>
<b>Non-current liabilities</b>		
Provision for long service awards	-	2,390
<b>Total non-current liabilities</b>	<b>-</b>	<b>2,390</b>
<b>Total liabilities</b>	<b>527,793</b>	<b>2,496,173</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Share capital	378,338	389,887
Capital surplus	368,338	379,887
Retained earnings	503,632	561,288
Treasury shares	(227)	(227)
<b>Total shareholders' equity</b>	<b>1,250,081</b>	<b>1,330,835</b>
<b>Accumulated other comprehensive income</b>		
Valuation difference on available-for-sale securities	15,966	(3,084)
Foreign currency translation adjustment	1,012	2,019
<b>Total accumulated other comprehensive income</b>	<b>16,979</b>	<b>(1,064)</b>
<b>Non-controlling interests</b>	<b>5,534</b>	<b>23,929</b>
<b>Total net assets</b>	<b>1,272,595</b>	<b>1,353,699</b>
<b>Total liabilities and net assets</b>	<b>1,800,388</b>	<b>3,849,872</b>

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

(Thousands of yen)

	Fiscal Year 2024 (Jan. 1, 2024 – Dec. 31, 2024)	Fiscal Year 2025 (Jan. 1, 2025 – Dec. 31, 2025)
Net sales	2,905,981	3,900,040
Cost of sales	1,665,908	2,167,305
Gross profit	1,240,073	1,732,735
Selling, general and administrative expenses	932,119	1,503,484
Operating profit	307,954	229,250
Non-operating income		
Interest income	102	2,214
Foreign exchange gains	298	-
Subsidy income	-	12,223
Gain on valuation of derivatives	49,459	-
Other	4,745	1,043
Total non-operating income	54,605	15,480
Non-operating expenses		
Interest expenses	-	10,325
Share of loss of entities accounted for using equity method	-	40,637
Foreign exchange losses	-	1,957
Loss on valuation of derivatives	-	58,597
Refund of subsidies	-	4,500
Other	127	198
Total non-operating expenses	127	116,215
Ordinary profit	362,432	128,516
Extraordinary losses		
Loss on retirement of non-current assets	-	94
Total extraordinary losses	-	94
Profit before income taxes	362,432	128,421
Income taxes - current	105,537	33,126
Income taxes - deferred	(17,800)	19,580
Total income taxes	87,737	52,707
Profit	274,694	75,714
Profit attributable to non-controlling interests	1,907	18,058
Profit attributable to owners of parent	272,787	57,656

## Consolidated Statement of Comprehensive Income

(Thousands of yen)

	Fiscal Year 2024 (Jan. 1, 2024 – Dec. 31, 2024)	Fiscal Year 2025 (Jan. 1, 2025 – Dec. 31, 2025)
Profit	274,694	75,714
Other comprehensive income		
Valuation difference on available-for-sale securities	15,966	(19,051)
Foreign currency translation adjustment	1,644	1,343
Total other comprehensive income	17,611	(17,708)
Comprehensive income	292,306	58,006
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	289,988	39,611
Comprehensive income attributable to non-controlling interests	2,318	18,394

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

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

Fiscal Year 2025 (Jan. 1, 2025 – Dec. 31, 2025)

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	378,338	368,338	503,632	(227)	1,250,081
Changes during period					
Issuance of new shares	11,548	11,548			23,097
Profit attributable to owners of parent			57,656		57,656
Purchase of treasury shares					
Net changes in items other than shareholders' equity					
Total changes during period	11,548	11,548	57,656	-	80,753
Balance at end of period	389,887	379,887	561,288	(227)	1,330,835

(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	15,966	1,012	16,979	5,534	1,272,595
Changes during period					
Issuance of new shares					23,097
Profit attributable to owners of parent					57,656
Purchase of treasury shares					-
Net changes in items other than shareholders' equity	(19,051)	1,007	(18,044)	18,394	349
Total changes during period	(19,051)	1,007	(18,044)	18,394	81,103
Balance at end of period	(3,084)	2,019	(1,064)	23,929	1,353,699

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

(Thousands of yen)

	Fiscal Year 2024 (Jan. 1, 2024 – Dec. 31, 2024)	Fiscal Year 2025 (Jan. 1, 2025 – Dec. 31, 2025)
Cash flows from operating activities		
Profit before income taxes	362,432	128,421
Depreciation	20,442	27,468
Amortization of goodwill	-	8,137
Increase (decrease) in provision for long service awards	-	2,390
Increase (decrease) in allowance for doubtful accounts	-	(40)
Increase (decrease) in provision for loss on orders received	2,696	(1,685)
Interest income	(102)	(2,214)
Decrease (increase) in trade receivables and contract assets	(270,504)	(231,774)
Loss (gain) on valuation of derivatives	(49,459)	58,597
Decrease (increase) in inventories	12,537	(13,393)
Increase (decrease) in trade payables	19,417	47,603
Increase (decrease) in contract liabilities	4,468	(7,323)
Increase (decrease) in accounts payable - other	7,539	11,714
Increase (decrease) in accrued expenses	42,332	65,355
Increase (decrease) in accrued consumption taxes	31,992	(4,197)
Refund of subsidies	-	4,500
Subsidy income	-	(12,223)
Interest expenses	-	10,325
Share of loss (profit) of entities accounted for using equity method	-	40,637
Loss on retirement of property, plant and equipment	-	94
Other, net	(10,332)	(21,795)
Subtotal	173,458	110,598
Interest received	102	2,214
Interest paid	-	(10,325)
Refund of subsidies	-	(4,500)
Subsidies received	-	12,223
Income taxes paid	(29,150)	(148,923)
Net cash provided by (used in) operating activities	144,409	(38,713)
Cash flows from investing activities		
Purchase of property, plant and equipment	(26,574)	(21,928)
Purchase of investment securities	(72,029)	-
Purchase of derivatives	(112,367)	-
Purchase of intangible assets	-	(930)
Purchase of shares of subsidiaries and associates	-	(1,910,146)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	-	(161,637)
Net cash provided by (used in) investing activities	(210,970)	(2,094,641)
Cash flows from financing activities		
Proceeds from issuance of shares	10,250	14,022
Net increase (decrease) in short-term borrowings	-	1,900,000
Net cash provided by (used in) financing activities	10,250	1,914,022
Effect of exchange rate change on cash and cash equivalents	1,644	1,244
Net increase (decrease) in cash and cash equivalents	(54,665)	(218,088)
Cash and cash equivalents at beginning of period	897,899	843,233
Cash and cash equivalents at end of period	843,233	625,145

## (5) Notes to Consolidated Financial Statements

### Going Concern Assumption

Not applicable.

### Changes in Significant Subsidiaries during the Period

During the third quarter of 2025, Headwaters acquired all shares in LogTech Corporation and made it a subsidiary. Accordingly, LogTech Corporation was included in the scope of consolidation in the third quarter of 2025.

LogTech Corporation is a specified subsidiary of Headwaters.

### 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 fiscal year under review.

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 has no impact on the 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 fiscal year under review. This change in accounting policy has been applied retrospectively, and the consolidated financial statements for the previous fiscal year reflect the change. It has no impact on the consolidated financial statements for the previous fiscal year.

### Segment Information

Segment information

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

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

Fiscal Year 2025 (Jan. 1, 2025 – Dec. 31, 2025)

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

Related information

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 net sales in the consolidated statement of income.

Fiscal Year 2025 (Jan. 1, 2025 – Dec. 31, 2025)

1. Information by product or service

(Thousands of yen)	
Services	Sales to external customers
AI Integration Services	2,626,396
DX Services	1,167,263
Product Services	106,380
Total	3,900,040

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 net sales in the consolidated statement of income.

(Information on impairment loss on non-current assets by reportable segment)

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

Not applicable.

Fiscal Year 2025 (Jan. 1, 2025 – Dec. 31, 2025)

Not applicable.

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

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

Not applicable.

Fiscal Year 2025 (Jan. 1, 2025 – Dec. 31, 2025)

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

(Information on gain on bargain purchase by reportable segment)

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

Not applicable.

Fiscal Year 2025 (Jan. 1, 2025 – Dec. 31, 2025)

Not applicable.

## Per Share Information

(Yen)

	Fiscal Year 2024 (Jan. 1, 2024 – Dec. 31, 2024)	Fiscal Year 2025 (Jan. 1, 2025 – Dec. 31, 2025)
Net assets per share	333.73	345.93
Basic earnings per share	72.01	15.13
Diluted earnings per share	65.38	13.84

- Notes: 1. Headwaters conducted a two-for-one common stock split on 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 the fiscal year ended December 31, 2024.
2. Basis for calculation of basic earnings per share and diluted earnings per share is as follows.

	Fiscal Year 2024 (Jan. 1, 2024 – Dec. 31, 2024)	Fiscal Year 2025 (Jan. 1, 2025 – Dec. 31, 2025)
(1) Basic earnings per share		
[Basis for calculation]		
Profit attributable to owners of parent (thousands of yen)	272,787	57,656
Amount not available to common stock shareholders (thousands of yen)	-	-
Profit attributable to owners of parent applicable to common stock (thousands of yen)	272,787	57,656
Average number of shares of common stock outstanding during the period (shares)	3,787,979	3,809,484
(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)	384,362	355,706
Summary of dilutive shares not included in the calculation of diluted earnings per share since there was no dilutive effect and significantly changed from the end of the previous fiscal year	-	-

Note: 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.

## Significant Subsequent Events

### Merger and Absorption of BBD Initiative

In accordance with a resolution approved by the Headwaters Board of Directors on January 26, 2026, Headwaters has signed a contract for the merger and absorption of BBD Initiative Inc. that is planned to take place on May 1, 2026. Headwaters will remain after this transaction and BBD Initiative will be dissolved. A resolution to approve this contract will be submitted at the 21st Annual General Meeting of Shareholders to be held on March 27, 2026.

#### 1. Purpose of this management integration

As is explained afterward, Headwaters and BBD Initiative believe this management integration will have benefits that include the creation of new value by combining technologies and products, business growth by combining human resources, and an increase in financial soundness.

##### 1) Creation of new value by combining technologies and products

Combining Headwaters' advanced expertise for the use of AI with the SaaS product portfolio of BBD Initiative is expected to result in the development of next-generation services that incorporate AI functions. One expected benefit is more added value for current products. In addition, Headwaters plans to build a framework for bringing to markets

new solutions that raise the efficiency of customers' business processes and support digital transformation activities. Headwaters believes that these benefits will make its businesses even more competitive.

## 2) Business growth by combining human resources

Combining the engineering resources of the two companies is expected to make Headwaters more competitive when recruiting engineers and further upgrade AI training programs. Headwaters believes that these benefits will raise the speed and quality of development programs, resulting in the ability to handle an even larger number of projects. In addition, Headwaters is aiming to create opportunities for cross-selling and up-selling to provide products and services encompassing a broad range of market sectors.

## 3) Increase in financial soundness

This management integration is expected to further improve financial soundness by increasing the scale of business operations and the ease of procuring funds. Headwaters believes this will make it possible to take actions with flexibility involving large industry realignments and new investments. Furthermore, financial soundness will support substantial R&D expenditures, M&A activity and other strategic actions. The goal is to make financial soundness a key component of a foundation capable of supporting the medium- to long-term sustainable growth of Headwaters and BBD Initiative.

## 2. Summary of merger

### (1) Schedule

Resolution of the Board of Directors (Headwaters and BBD Initiative)	January 26, 2026
Signing of stock exchange agreement (Headwaters and BBD Initiative)	January 26, 2026
Date of resolution at the Annual General Meeting of Shareholders (Headquarters)	March 27, 2026 (tentative)
Notification of setting record date for the Extraordinary General Meeting of Shareholders (BBD Initiative)	January 26, 2026 (tentative)
Record date for the Extraordinary General Meeting of Shareholders (BBD Initiative)	February 10, 2026 (tentative)
Extraordinary General Meeting of Shareholders (BBD Initiative)	March 27, 2026 (tentative)
Last trading day (BBD Initiative)	April 27, 2026 (tentative)
Delisting of stock (BBD Initiative)	April 28, 2026 (tentative)
Effective date	May 1, 2026 (tentative)

### (2) Method

An absorption-type merger between Headwaters, which is the surviving company, and BBD Initiative, which will be dissolved

### (3) Allotment of the exchange of stock

	Headwaters (Company surviving an absorption-type merger)	BBD Initiative (Company dissolved in an absorption-type merger)
Exchange ratio	1	0.50

Notes: 1. Exchange ratio

The exchange ratio is 0.50 share of Headwaters stock for one share of BBD Initiative stock. However, there will be no exchange of stock for the 1,599,100 shares of BBD Initiative stock held by Headwaters and the 296 shares of treasury stock held by BBD Initiative as of September 30, 2025.

2. Number of shares to be allotted: 2,260,412 shares of common stock (tentative)

This number of shares allotted for the exchange of stock may be revised if the number of treasury shares held by BBD Initiative changes between now and immediately before the merger date due to stock purchase requests by BBD Initiative shareholders and other reasons.

Headwaters expects to use newly issued shares of common stock to supply all of the stock that will be needed for the exchange of stock for this merger.

3. Handling of holdings of less than one trading unit (tangen)

BBD Initiative shareholders who hold less than one tangen (fewer than 100 shares) of Headwaters stock due to this exchange of stock can use the following system for this stock. A holding smaller than one tangen can be sold by using a securities company that provides this service, but this holding cannot be sold on a financial market.

- Purchase of less than one tangen (sale of less than one tangen (fewer than 100 shares))

Under this system, pursuant to Article 192, Paragraph 1 of the Companies Act, shareholders holding less than one tangen of Headwaters stock may request Headwaters to purchase these shares.

4. Adjustment for fractional shares

BBD Initiative shareholders who receive a fraction of one share of Headwaters stock due to this exchange of stock will receive a cash payment for the fractional holding in accordance with the provisions in Article 234 of the Companies' Act and other related laws and regulations.

(4) Allotment of the exchange of stock

BBD Initiative has not issued share acquisition rights or bonds with share acquisition rights.

3. Outline of the merging companies

	Company surviving an absorption-type merger	Company dissolved in an absorption-type merger								
(1) Name	Headwaters Co., Ltd.	BBD Initiative Inc.								
(2) Location	6-5-1 Nishi-Shinjuku, Shinjuku-ku, Tokyo	2-5-1 Atago, Minato-ku, Tokyo								
(3) Representative	Yosuke Shinoda, Representative Director	Yuichi Inaba, Representative Director, Group CEO								
(4) Business	AI Solution Business	DX Business, BPO Business								
(5) Share capital	389,887 thousand yen	1,176,526 thousand yen								
(6) Established	November 2005	April 2023								
(7) Number of issued shares	3,844,144 shares	6,120,221 shares								
(8) Fiscal year end	December 31	September 30								
(9) Number of employees	391 (Consolidated)	215 (Consolidated)								
(10) Major clients	Not applicable	Not applicable								
(11) Main banks	Mizuho Bank Mitsubishi UFJ Bank	Mitsubishi UFJ Bank Sumitomo Mitsui Banking Corporation								
(12) Major shareholders and shareholding ratios	Yosuke Shinoda: 46.42% Ryouzai Mizutani: 3.12% Rakuten Securities, Inc.: 2.93% Masato Hikita: 1.31% Tetsuharu Yamazaki: 1.01% BC Holdings Co.,Ltd.: 0.85% Hidenobu Kon: 0.84% Nomura Securities Co.,Ltd.: 0.83% ROBOT PAYMENT INC.: 0.83% Shoji Hatakeyama: 0.70%	Headwaters Co., Ltd.: 26.13% Yuichi Inaba: 22.48% Infinity Asset Management. Inc: 4.91% Takashi Yanagisawa: 3.50% Koki Iioka: 2.98% Tatsuya Iinuma 2.11% WOW WORLD Inc.: 1.68% Kimiko Inaba: 1.14% Yukio Yoneda: 0.50% Teruaki Miyaji: 0.33%								
(13) Relationships between Headwaters and BBD Initiative	<table border="1"> <tr> <td>Capital</td> <td>Headwaters owns 1,599,100 shares of BBD Initiative, 26.13% of the 6,120,221 shares issued. Headwaters is the largest shareholder of BBD Initiative and classified as an other affiliated company.</td> </tr> <tr> <td>Personnel</td> <td>Not applicable.</td> </tr> <tr> <td>Business</td> <td>Headwaters and BBD Initiative established an equity and business alliance on August 14, 2025, and started activities for strengthening X-Tech and AI.</td> </tr> <tr> <td>Related parties</td> <td>BBD Initiative is an affiliated company of Headwaters and is classified as a related party.</td> </tr> </table>		Capital	Headwaters owns 1,599,100 shares of BBD Initiative, 26.13% of the 6,120,221 shares issued. Headwaters is the largest shareholder of BBD Initiative and classified as an other affiliated company.	Personnel	Not applicable.	Business	Headwaters and BBD Initiative established an equity and business alliance on August 14, 2025, and started activities for strengthening X-Tech and AI.	Related parties	BBD Initiative is an affiliated company of Headwaters and is classified as a related party.
Capital	Headwaters owns 1,599,100 shares of BBD Initiative, 26.13% of the 6,120,221 shares issued. Headwaters is the largest shareholder of BBD Initiative and classified as an other affiliated company.									
Personnel	Not applicable.									
Business	Headwaters and BBD Initiative established an equity and business alliance on August 14, 2025, and started activities for strengthening X-Tech and AI.									
Related parties	BBD Initiative is an affiliated company of Headwaters and is classified as a related party.									

(14) Results of operations and financial position for the past three years						
Fiscal year ended	Headwaters (Consolidated)			BBD Initiative (Consolidated)		
	December 2022	December 2023	December 2024	September 2023	September 2024	September 2025
Net assets	875,442	961,659	1,272,595	1,091,309	1,280,360	1,758,216
Total assets	1,169,242	1,294,238	1,800,388	3,746,996	4,133,240	3,989,128
Consolidated net assets per share (Yen)	233.78	254.73	333.73	206.84	242.26	287.29
Net sales	1,574,596	2,315,088	2,905,981	3,570,969	4,127,625	4,399,466
Operating profit (loss)	110,019	94,861	307,954	22,577	285,497	(351,803)
Ordinary profit	106,916	98,300	362,432			
Profit (loss) attributable to owners of parent	75,143	70,683	272,787	29,999	164,727	(377,478)
Basic earnings (loss) per share	20.07	18.85	72.01	5.75	31.22	(63.60)
Dividend per share (Yen)	-	-	-	-	7.00	-

(Thousands of yen, unless otherwise stated)

#### 4. Outlook

An announcement will be made when the outlook for results of operations after this management integration has been determined.

(Change in Subsidiary due to an absorption-type merger)

Headwaters signed a merger agreement with BBD Initiative for an absorption-type merger in which Headwaters will be the surviving company and BBD Initiative will be dissolved. Headwaters is making the following announcement because the merger is expected to result in a change in subsidiaries of Headwaters.

##### 1. Reason and method for change in subsidiaries

As was announced on January 26, 2026, in a release titled “Notice of Headwaters and BBD Initiative Merger Agreement,” the Boards of Directors of Headwaters and BBD Initiative approved resolutions to sign a merger agreement that is to become effective on May 1, 2026. The management of the two companies is to be integrated in a spirit of equality. The merger agreement was signed the same day.

Completion of this merger will require the approval of shareholders on March 27, 2026, at the Headwaters Annual General Meeting of Shareholders and the BBD Initiative Extraordinary General Meeting of Shareholders to vote on a special resolution. If shareholder approval is received, the merger is planned to take place on May 1, 2026. On this day, the following companies are expected to become subsidiaries of Headwaters: BlueTec Inc., ArchitectCore Inc., Net Business Support Ltd., BoostMarketing Inc., and RocketStarter Inc.

##### 2. Overview of the subsidiary to be transferred

###### (1) BlueTec Inc.

Location: 3-18-19 Toranomom, Minato-ku, Tokyo  
Representative Director: Koki Iioka  
Capital: 100 million yen  
Business: DX Business  
Major shareholder and shareholding ratio: BBD Initiative 100%

###### (2) ArchitectCore Inc.

Location: 3-18-19 Toranomom, Minato-ku, Tokyo  
Representative: Tetsuo Nakagawa, Representative Director

Capital: 10 million yen  
Business: BPO Business  
Major Shareholder and shareholding ratio: BBD Initiative 100%

(3) Net Business Support Ltd.

Location: 3-18-19 Toranomom, Minato-ku, Tokyo  
Representative Director: Masao Ikegami  
Capital: 3 million yen  
Business: DX Business  
Major shareholder and shareholding ratio: BBD Initiative 100%

(4) BoostMarketing Inc.

Location: 2-5-1 Atago, Minato-ku, Tokyo  
Representative Director: Norihiro Fujita  
Capital: 59 million yen  
Business: DX Business  
Major shareholder and shareholding ratio: BBD Initiative 100%

(5) RocketStarter Inc.

Location: 3-18-19 Toranomom, Minato-ku, Tokyo  
Representative Director: Takashi Yanagisawa  
Capital: 10 million yen  
Business: DX Business  
Major shareholder and shareholder ratio: BBD Initiative 100%

3. Schedule

Information about the schedule is in the above “1. Reason and method for change in subsidiaries” and in “2. Summary of the Merger (1) Schedule” of Merger and Absorption of BBD Initiative.

4. Outlook

An announcement will be made when the outlook for results of operations after this management integration has been determined.