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May 15, 2026

Consolidated Financial Results for the First Quarter of the Fiscal Year Ending December 31, 2026 (Under Japanese GAAP)

Company name: Headwaters Co., Ltd.
 Listing: Tokyo Stock Exchange
 Securities code: 4011
 URL: <https://www.headwaters.co.jp/en/>
 Representative: Yosuke Shinoda, Representative Director
 Inquiries: Kazutaka Harashima, Executive Officer, Administrative Management Department Manager
 Telephone: +81-3-6258-0525
 Scheduled date to commence dividend payments: -
 Preparation of supplementary material on financial results: Yes
 Holding of financial results briefing: None

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

1. Consolidated financial results for the first quarter of the fiscal year ending December 31, 2026 (January 1, 2026 – March 31, 2026)

(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 | % |
| Three months ended | | | | | | | | |
| March 31, 2026 | 1,262 | 70.8 | 135 | - | 52 | - | 12 | - |
| March 31, 2025 | 739 | 4.4 | (67) | - | (2) | - | (20) | - |

Note: Comprehensive income For the three months ended March 31, 2026: ¥13 million [-%]
 For the three months ended March 31, 2025: ¥(0) million [-%]

| | Basic earnings per share | Diluted earnings per share |
|--------------------|--------------------------|----------------------------|
| Three months ended | Yen | Yen |
| March 31, 2026 | 3.24 | 2.99 |
| March 31, 2025 | (5.43) | - |

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, 2025.

2. Diluted earnings per share for the three months ended March 31, 2025 are 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 | % |
| March 31, 2026 | 3,987 | 1,367 | 33.6 |
| December 31, 2025 | 3,849 | 1,353 | 34.5 |

Reference: Equity As of March 31, 2026: ¥1,339 million As of December 31, 2025: ¥1,329 million

2. Cash dividends

| | Annual dividends per share | | | | |
|---|----------------------------|--------------------|-------------------|-----------------|-------------|
| | First quarter-end | Second quarter-end | Third quarter-end | Fiscal year-end | Total |
| Fiscal year ended December 31, 2025 | Yen - | Yen 0.00 | Yen - | Yen 0.00 | Yen 0.00 |
| Fiscal year ending December 31, 2026 | - | | | | |
| Fiscal year ending December 31, 2026 (Forecast) | | 0.00 | - | 0.00 | 0.00 |

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

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 | 8,555 | 119.4 | 753 | 228.9 | 619 | 382.0 | 391 | 578.6 | 101.66 |

Note: Revisions to the most recently announced consolidated forecast: Yes

*** Notes**

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

Newly included: - Excluded: -

(2) Application of special accounting methods for presenting quarterly consolidated 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: None

(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 March 31, 2026 | 3,845,744 shares |
| As of December 31, 2025 | 3,844,144 shares |

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

| | |
|-------------------------|------------|
| As of March 31, 2026 | 104 shares |
| As of December 31, 2025 | 104 shares |

(iii) Average number of shares outstanding during the period

| | |
|-----------------------------------|------------------|
| Three months ended March 31, 2026 | 3,844,076 shares |
| Three months ended March 31, 2025 | 3,796,656 shares |

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, 2025.

* Review of attached quarterly consolidated financial statements by certified public accountants or an auditing firm: None

* 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. Qualitative Information on Quarterly Consolidated Financial Performance (3) Explanation of Consolidated Earnings Forecasts and Other Forward-looking Statements” on page 4 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 quarter of fiscal year ending December 31, 2026 (January 1, 2026 to March 31, 2026), the Japanese economy continued to recover moderately, mainly reflecting improvements in the employment and income environments and growing demand from inbound tourists. In addition, the business environment surrounding the Headwaters Group remained steady, with a strong appetite for digital investment among companies. Nonetheless, the future of the economy has remained uncertain mainly due to soaring prices, geopolitical risks, and trends in U.S. tariff policy.

In the IT industry in which the Headwaters Group operates, the pace of technological progress is rapid because of many innovations, notably artificial intelligence (AI) and the digital transformation (DX). In particular, the emergence and evolution of AI agent have 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. The use of AI agents continues to increase in many fields and technical innovation is proceeding at a rapid pace. The Group expects to leverage this environment and technologies to increase the number of business opportunities.

In consideration of these changes in the business environment, the Headwaters Group has revised its classification of reportable segments to more appropriately reflect the actual status of its businesses and future growth strategies, starting with the first quarter.

Previously, the Group operated the AI solutions business as a single segment to provide one-stop solutions to corporate management issues. However, in line with the evolution of AI agents and the increasingly sophisticated AI utilization needs of companies, Headwaters has transitioned to an AI platform business. This enables the Group to not only undertake one-off contract development projects or the provision of individual products, but also to deeply understand the business issues faced by client companies and continuously facilitate the implementation and utilization of data, AI, and business knowledge based on X-Tech FDE.*1

Accordingly, to more clearly illustrate its growth drivers and revenue base, the Group has reclassified its businesses into the following three segments.

- Enterprise AI Solutions Business: Establishing competitive advantages for client companies by supporting their introduction of leading-edge AI technologies
- AI Workflow Engineering Business: Optimizing business processes using AI
- DATA & AI Engine Business: Establishing reusable AI platforms

This enables the Group to operate a management system in which it can monitor and assess its progress toward its goals, specifically, the status of the FDE-led AI implementation capabilities it seeks to develop, its accumulation of knowledge assets through SyncLect Data Intelligence and the continuous provision of value to existing customers by creating synergies that enables the structural and continuous growth of its businesses while simultaneously establishing a revenue base.

In the first quarter, demand for AI agents remained brisk, as it did in the previous fiscal year, resulting in the continued rise in sales of AI Integration Services included in the previous segment.

*1. X-Tech FDE is a method used to realize Forward Deployed Engineering (FDE) using various types of technology (X-Tech). FDE is an approach where engineers work together with the people on the front lines of the client's operations to responsibly implement and develop AI and DX products until value is created. Unlike conventional approaches, engineers' work does not end when a system is installed because the value is provided through a continuous approach, including the identification of issues and updating

of products with new technologies.

Enterprise AI Solutions Business

This segment conducts business transformation consulting and provides AI solutions, mainly for large companies, using AI agents that make decisions and execute business in core management and operational areas.

To address clients' management and business issues, the segment provides integrated support that includes the formulation of business designs and operational transformation concepts using AI, the design and implementation of AI agents, the establishment of connections with core operations, and the stabilization of operations.

The segment is particularly able to demonstrate its strengths when placing AI agents equipped with business knowledge at the core of business processes in operational areas where high reliability is required, such as decision-making, examination, dialogue and judgment processes.

Instead of only engaging in individual development projects, the segment is working to enable cross-project applications and accelerate the shift to a scalable service delivery model by facilitating the standardization and reuse of AI agent design patterns and industry-specific use cases. By doing this, the Group is seeking to steadily tap into demand in high value-added areas while also establishing a highly profitable and reproducible business structure.

AI Workflow Engineering Business

This segment is a business aiming at facilitating a transfer to a scheme that enables entire operations to run autonomously by integrating AI agents into workflows, starting with the company's business processes themselves.

Instead of just introducing AI-based models, the business builds operational models, in which operations continuously improve and evolve, by redesigning workflows, assigning roles, connecting data linkage and creating decision-making assuming that AI agents will be used.

To deal with issues such as not having enough people to do internal production or AI not taking root in front-line operations, the business is working to facilitate the shift to the AI-based execution of operations by providing operation-oriented, customer-centric introduction support.

Leveraging its strength of flexible design capabilities that reflect the operational characteristics of each company, the Group provides an AI-driven workflow platform designed to be continuously in use and improved, rather than a product introduced once. By doing this, it maximizes LTV and facilitates the development of businesses emphasizing the establishment of medium- and long-term relationships with customers.

DATA & AI Engine Business

In this segment, AI agents convert operational data, sales and operational knowledge, decision-making criteria, and tacit knowledge possessed by client companies into reusable structured knowledge and accumulate them.

Headwaters' strengths lie in not just possessing client data, but connecting and interpreting client data and turning them into assets such as business ontologies, AI agent design templates and industry-specific knowledge models.

The role of this segment is to generate recurring revenue with a focus on existing products and contact points with customers (including the BBD Initiative Group), while also cross-functionally bundling knowledge accumulated through the operations of the Enterprise AI Solutions Business and the AI Workflow Engineering Business and using it for new applications.

Through these efforts, the Group seeks to enhance the reusability of AI implementations and its development

speed throughout the Group to establish a foundation that enables the AI platform business to grow over the medium- and long-term.

A management system has been established that enables the Group to monitor and assess its progress toward its goals, specifically, the status of the FDE-led AI implementation capabilities it seeks to develop, its accumulation of knowledge assets through SyncLect Data Intelligence and the continuous provision of value to existing customers, by creating synergy that enables the structural and continuous growth of its businesses while simultaneously establishing a revenue base.

As a result, net sales for the first quarter of 2026 increased 70.8% year on year, to 1,262 million yen. The Group posted an operating profit of 135 million yen (operating loss of 67 million yen in the first quarter of 2025), an ordinary profit of 52 million yen (ordinary loss of 2 million yen in the first quarter of 2025), and a profit attributable to owners of parent of 12 million yen (loss attributable to owners of parent of 20 million yen in the first quarter of 2025).

(2) Explanation of Financial Position

Assets

Total assets at the end of the first quarter of 2026 stood at 3,987 million yen, an increase of 137 million yen from the end of 2025.

Current assets totaled 1,809 million yen at the end of the first quarter of 2026, an increase of 229 million yen from the end of 2025. This was mainly attributable to increases of 232 million yen in cash and deposits, 33 million yen in advance payments to suppliers, and 13 million yen in prepaid expenses, despite a 46 million yen decrease in accounts receivable - trade, and contract assets. Non-current assets dropped 91 million yen from the end of 2025, to 2,177 million yen. This mainly reflected a decrease of 82 million yen in investment and other assets.

Liabilities

Total liabilities at the end of the first quarter stood at 2,620 million yen, an increase of 123 million yen from the end of 2025. This was largely due to an increase of 153 million yen in contract liabilities, despite decreases of 23 million yen in accounts payable - trade and 8 million yen in accrued consumption taxes.

As of March 31, 2026, the ratio of current assets to current liabilities stood at 69.1%. 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 for purchasing shares of subsidiaries and associates. These short-term borrowings were obtained on the condition that they would be refinanced as long-term borrowings within one year 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 the first quarter resulted in 1,367 million yen, which is an increase of 13 million yen from the end of 2025. This was mainly attributable to increases in share capital of 0.2 million yen and retained earnings of 12 million yen resulting from the posting of profit attributable to owners of parent.

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

For the earnings forecasts for the fiscal year ending December 31, 2026, please see the notice regarding the revision of the full-year earnings forecasts announced on May 15, 2026.

Forecasts and forward-looking statements in these materials are based on assumptions judged to be valid and information available to Headwaters. Actual performance may differ significantly from these forecasts for a number of reasons.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheet

| | (Thousands of yen) | |
|---|---|---|
| | Fiscal Year 2025 (As of Dec. 31, 2025) | First quarter of Fiscal Year 2026 (As of Mar. 31, 2026) |
| Assets | | |
| Current assets | | |
| Cash and deposits | 625,145 | 858,067 |
| Accounts receivable - trade and contract assets | 828,670 | 782,339 |
| Work in process | 17,349 | 12,881 |
| Advance payments to suppliers | 30,250 | 63,250 |
| Prepaid expenses | 55,715 | 68,854 |
| Other | 23,672 | 24,599 |
| Allowance for doubtful accounts | (200) | (300) |
| Total current assets | 1,580,604 | 1,809,691 |
| Non-current assets | | |
| Property, plant and equipment | 42,490 | 42,702 |
| Intangible assets | | |
| Goodwill | 154,603 | 146,466 |
| Other | 7,136 | 6,165 |
| Total intangible assets | 161,740 | 152,632 |
| Investments and other assets | | |
| Shares of subsidiaries and associates | 1,870,609 | 1,815,365 |
| Deferred tax assets | 4,516 | 8,388 |
| Derivatives | 103,230 | 82,003 |
| Other | 86,682 | 76,623 |
| Total investments and other assets | 2,065,037 | 1,982,382 |
| Total non-current assets | 2,269,268 | 2,177,716 |
| Total assets | 3,849,872 | 3,987,408 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable - trade | 216,057 | 192,573 |
| Accounts payable - other | 47,122 | 32,606 |
| Short-term borrowings | 1,900,000 | 1,900,000 |
| Accrued expenses | 200,230 | 181,537 |
| Accrued consumption taxes | 82,601 | 74,093 |
| Income taxes payable | 4,018 | 35,849 |
| Contract liabilities | 1,286 | 155,173 |
| Deposits received | 41,311 | 45,815 |
| Provision for loss on orders received | 1,140 | 10 |
| Other | 14 | 0 |
| Total current liabilities | 2,493,782 | 2,617,660 |
| Non-current liabilities | | |
| Provision for long service awards | 2,390 | 2,390 |
| Total non-current liabilities | 2,390 | 2,390 |
| Total liabilities | 2,496,173 | 2,620,050 |

(Thousands of yen)

| | Fiscal Year 2025 (As of Dec. 31, 2025) | First quarter of Fiscal Year 2026 (As of Mar. 31, 2026) |
|---|---|---|
| Net assets | | |
| Shareholders' equity | | |
| Share capital | 389,887 | 390,137 |
| Capital surplus | 379,887 | 380,137 |
| Retained earnings | 561,288 | 573,737 |
| Treasury shares | (227) | (227) |
| Total shareholders' equity | 1,330,835 | 1,343,785 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | (3,084) | (9,437) |
| Foreign currency translation adjustment | 2,019 | 4,696 |
| Total accumulated other comprehensive income | (1,064) | (4,741) |
| Non-controlling interests | 23,929 | 28,313 |
| Total net assets | 1,353,699 | 1,367,357 |
| Total liabilities and net assets | 3,849,872 | 3,987,408 |

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

**Quarterly Consolidated Statement of Income
For the Three-month Period**

| | (Thousands of yen) | |
|---|---|---|
| | First three months of Fiscal Year 2025 (Jan. 1, 2025 – Mar. 31, 2025) | First three months of Fiscal Year 2026 (Jan. 1, 2026 – Mar. 31, 2026) |
| Net sales | 739,209 | 1,262,400 |
| Cost of sales | 441,261 | 695,474 |
| Gross profit | 297,948 | 566,925 |
| Selling, general and administrative expenses | 365,568 | 431,632 |
| Operating profit (loss) | (67,619) | 135,293 |
| Non-operating income | | |
| Interest income | 422 | 3,335 |
| Foreign exchange gains | 1,150 | - |
| Gain on valuation of derivatives | 62,399 | - |
| Subsidy income | - | 1,200 |
| Other | 782 | 710 |
| Total non-operating income | 64,754 | 5,245 |
| Non-operating expenses | | |
| Interest expenses | - | 8,826 |
| Loss on valuation of derivatives | - | 21,226 |
| Share of loss of entities accounted for using equity method | - | 55,243 |
| Foreign exchange losses | - | 3,124 |
| Other | - | 42 |
| Total non-operating expenses | - | 88,463 |
| Ordinary profit (loss) | (2,865) | 52,075 |
| Loss on retirement of non-current assets | - | 64 |
| Total extraordinary losses | - | 64 |
| Profit (loss) before income taxes | (2,865) | 52,011 |
| Income taxes - current | 7,324 | 37,017 |
| Income taxes - deferred | 8,676 | (948) |
| Total income taxes | 16,000 | 36,069 |
| Profit (loss) | (18,866) | 15,942 |
| Profit attributable to non-controlling interests | 1,753 | 3,492 |
| Profit (loss) attributable to owners of parent | (20,619) | 12,449 |

Quarterly Consolidated Statement of Comprehensive Income
For the Three-month Period

(Thousands of yen)

| | First three months of Fiscal Year 2025 (Jan. 1, 2025 – Mar. 31, 2025) | First three months of Fiscal Year 2026 (Jan. 1, 2026 – Mar. 31, 2026) |
|--|---|---|
| Profit (loss) | (18,866) | 15,942 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | 20,639 | (6,352) |
| Foreign currency translation adjustment | (1,889) | 3,568 |
| Total other comprehensive income | 18,749 | (2,784) |
| Comprehensive income | (116) | 13,157 |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | (1,397) | 8,772 |
| Comprehensive income attributable to non-controlling interests | 1,280 | 4,384 |

(3) Notes to Quarterly Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Segment Information

1. Overview of reportable segments

The Group has decided to transform the AI solutions business, which it previously operated as a single segment, into the AI platform business based on X-Tech FDE due to the absorption-type merger with BBD Initiative Inc. conducted in the fiscal year ending December 31, 2026. Rather than merely operating as an AI-centric SaaS company, the Group seeks to promote a business model facilitating the construction and sustainment of a business platform on which it is possible to reuse FDE, business knowledge, data platforms and AI engines. As this model will drive asset creation and transform the Group's revenue base, it has decided to reclassify its business into three segments, the Enterprise AI Solutions Business, AI Workflow Engineering Business and DATA & AI Engine Business, starting in the first quarter.

Accordingly, the segment information for the first three months of the fiscal year 2025 has been prepared based on the revised reportable segments.

The Group's reportable segments are constituent units of Headwaters for which separate financial statements are available, and they are based on business segments for which periodic reviews are performed by the Board of Directors to determine the allocation of management resources and evaluate its performance.

2. Information on net sales and profit or loss for each reportable segment

The revenues and performance of the Group's reportable segments are as follows.

First three months of Fiscal Year 2025 (Jan. 1, 2025 – Mar. 31, 2025)

(Thousands of yen)

| | Reportable segments | | | | Adjustments (Note 1) | Amount on the quarterly consolidated financial statements (Note 2) |
|------------------------------------|--|--|---------------------------------|----------|-------------------------|---|
| | Enterprise AI Solutions Business | AI Workflow Engineering Business | DATA & AI Engine Business | Total | | |
| Revenue | | | | | | |
| Revenue from external customers | 703,170 | 36,039 | - | 739,209 | - | 739,209 |
| Inter-segment revenue | 5,907 | 60,336 | - | 66,243 | (66,243) | - |
| Total | 709,077 | 96,375 | - | 805,453 | (66,243) | 739,209 |
| Segment profit (loss) | (73,508) | 5,671 | - | (67,836) | 217 | (67,619) |

Notes: 1. The segment profit (loss) adjustment of 217 thousand yen is for the elimination of inter-segment transactions, etc.

2. Segment profit (loss) is adjusted to be consistent with operating profit in the quarterly consolidated statement of income.

3. There is no information about the DATA & AI Engine Business in the first three months of Fiscal Year 2025 because this segment was created as a result of the absorption-type merger with BBD Initiative Inc., which was conducted after the first three months of Fiscal Year 2025.

First three months of Fiscal Year 2026 (Jan. 1, 2026 – Mar. 31, 2026)

(Thousands of yen)

| | Reportable segments | | | | Adjustments (Note 1) | Amount on the quarterly consolidated financial statements (Note 2) |
|------------------------------------|--|--|---------------------------------|-----------|-------------------------|---|
| | Enterprise AI Solutions Business | AI Workflow Engineering Business | DATA & AI Engine Business | Total | | |
| Revenue | | | | | | |
| Revenue from external customers | 1,105,862 | 156,537 | - | 1,262,400 | - | 1,262,400 |
| Inter-segment revenue | 2,436 | 89,979 | - | 92,415 | (92,415) | - |
| Total | 1,108,299 | 246,516 | - | 1,354,815 | (92,415) | 1,262,400 |
| Segment profit | 116,731 | 17,778 | - | 134,510 | 783 | 135,293 |

Notes: 1. The segment profit adjustment of 783 thousand yen is for the elimination of inter-segment transactions, etc.

2. Segment profit is adjusted to be consistent with the operating profit reported in the quarterly consolidated statement of income.

3. There is no information about the DATA & AI Engine Business in the first three months of Fiscal Year 2026 because this segment was created as a result of the absorption-type merger with BBD Initiative Inc., which was conducted after the first three months of Fiscal Year 2026.

Consolidated Statement of Cash Flows

The quarterly consolidated statement of cash flows for the first three months of Fiscal Year 2026 is not prepared. Depreciation (including amortization of intangible assets, excluding goodwill) and amortization of goodwill for the first three months of Fiscal Year 2025 and Fiscal Year 2026 are as follows.

| | First three months of Fiscal Year 2025 (Jan. 1, 2025 – Mar. 31, 2025) | First three months of Fiscal Year 2026 (Jan. 1, 2026 – Mar. 31, 2026) |
|--------------------------|---|---|
| Depreciation | 5,262 thousand yen | 5,054 thousand yen |
| Amortization of goodwill | - thousand yen | 8,137 thousand yen |