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August 14, 2026

Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending December 31, 2026 (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 17, 2026
 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, 2026 (January 1, 2026 – June 30, 2026)

(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, 2026	3,351	104.6	271	-	129	-	(191)	-
June 30, 2025	1,637	22.9	(22)	-	(73)	-	(37)	-

Note: Comprehensive income For the six months ended June 30, 2026: ¥(196) million [up 321.2%]
 For the six months ended June 30, 2025: ¥(46) million [-%]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
June 30, 2026	(41.66)	-
June 30, 2025	(9.83)	-

Notes: 1. Diluted earnings per share for the six months ended June 30, 2025 and 2026 are not indicated because there was a loss per share although dilutive shares exist.
 2. Beginning with the six months ended June 30, 2026, Headwaters adopted changes to its accounting policies. Accordingly, the comparative figures for the six months ended June 30, 2025 have been retrospectively restated to reflect the change.

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
As of	Millions of yen	Millions of yen	%
June 30, 2026	10,309	6,159	59.5
December 31, 2025	3,857	1,352	34.5

Reference: Equity As of June 30, 2026: ¥6,134 million As of December 31, 2025: ¥1,328 million

Note: Beginning with the six months ended June 30, 2026, Headwaters adopted changes to its accounting policies. Accordingly, the comparative figures as of December 31, 2025 have been retrospectively restated to reflect the change.

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, 2025	-	0.00	-	0.00	0.00
Fiscal year ending December 31, 2026	-	0.00			
Fiscal year ending December 31, 2026 (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, 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	228.8	619	384.9	391	587.9	72.85

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

Note: Year-on-year percentage changes are calculated using the comparative figures for the previous fiscal year, as retrospectively restated to reflect changes in accounting policies.

*** Notes**

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

Newly included: 5 companies (BlueTec Inc. and 4 other companies)

Excluded: -

(2) Application of special accounting methods for presenting interim consolidated financial statements: Yes

(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: Yes

(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, 2026	6,111,553 shares
As of December 31, 2025	3,844,144 shares

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

As of June 30, 2026	1,123 shares
As of December 31, 2025	104 shares

(iii) Average number of shares outstanding during the period

Six months ended June 30, 2026	4,607,951 shares
Six months ended June 30, 2025	3,797,361 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.

Contents of Attachments

1. Qualitative Information on Quarterly Consolidated Financial Performance	2
(1) Explanation of Results of Operations	2
(2) Explanation of Financial Position	4
(3) Explanation of Consolidated Earnings Forecasts and Other Forward-looking Statements.....	5
2. Interim Consolidated Financial Statements and Notes	6
(1) Interim Consolidated Balance Sheet	6
(2) Interim Consolidated Statement of Income and Interim Consolidated Statement of Comprehensive Income	8
Interim Consolidated Statement of Income	8
Interim Consolidated Statement of Comprehensive Income	9
(3) Interim Consolidated Statement of Cash Flows	10
(4) Notes to Interim Consolidated Financial Statements	11
Going Concern Assumption.....	11
Significant Changes in the Scope of Consolidation During the Period	11
Significant Changes in Shareholders' Equity.....	11
Changes in Accounting Policies	11
Business Combinations.....	12
Segment Information	14
Significant Subsequent Events.....	15

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, 2026 (January 1, 2026 to June 30, 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, regarding the business environment surrounding the Headwaters Group, demand for digital investment among companies has remained steady. Nonetheless, the outlook has remained uncertain mainly due to rising prices, geopolitical risks, and developments in the global economy.

In the AI market in which the Headwaters Group operates, advances in AI agent technology are driving a shift among companies from pilot testing toward the implementation and practical use of AI in their operations. In particular, demand is growing for AI investments aimed at improving productivity and transforming business operations, alongside the increasing adoption and utilization of AI agents that leverage company-specific data and business knowledge. Furthermore, infrastructure development is also gaining momentum to support the integration of AI agents into business processes, as well as their continuous use and enhancement. This trend is expected to drive further market expansion.

In consideration of these changes in the market and 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 half of 2026.

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 enable the structural and continuous growth of its businesses while simultaneously establishing a revenue base. In addition, the Group is promoting the company-wide adoption of AI agent technology to drive business transformation and productivity improvements across a broad range of functions, including sales, proposal development, consulting, development, and administrative operations. We are leveraging the business knowledge and operational expertise accumulated through these initiatives to enhance customer solutions, while simultaneously strengthening the reusable knowledge base for the AI platform business. This approach is aimed at enhancing the value we deliver to customers and establishing a competitive advantage.

In the first half of 2026, demand related to AI agents remained brisk, as it did in the previous fiscal year. In addition, following the absorption-type merger with BBD Initiative Inc., effective May 1, 2026, the businesses and revenue of the BBD Initiative Group are now included in the DATA & AI Engine and AI Workflow Engineering Businesses.

- *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 agents, 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.

Against the backdrop of growing corporate needs for AI agent utilization, AI adoption and development projects, particularly among large companies, remained steady during the first half of 2026. In particular, we saw growth in projects involving the implementation of AI agents equipped with business knowledge, as well as advanced AI utilization projects that drive business transformation.

In the first half of 2026, as a result of the above, sales from the Enterprise AI Solution Business increased 47.7% year on year to 2,327 million yen.

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.

During the first half of 2026, AI-driven development projects remained steady, reflecting companies' efforts to promote digital transformation (DX) and growing demand for internal production. Additionally, the number of projects integrating AI agents into business processes increased, and demand for infrastructure development to support AI-based execution of operations continued to expand.

In the first half of 2026, as a result of the above, sales from the AI Workflow Engineering Business increased 990.9% year on year to 682 million yen.

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.

During the first half of 2026, following the absorption-type merger with BBD Initiative Inc., effective May 1, 2026, the businesses and revenue of the BBD Initiative Group were included primarily in this segment. This has enabled us to continue expanding our recurring revenue base and strengthening the foundation for growth in the AI platform business.

In the first half of 2026, as a result of the above, sales from the DATA & AI Engine Business amounted to 341 million yen, with year-on-year comparison not applicable.

As a result, net sales for the first half of 2026 increased 104.6% year on year, to 3,351 million yen. The Group posted an operating profit of 271 million yen (operating loss of 22 million yen in the first half of 2025), an ordinary profit of 129 million yen (ordinary loss of 73 million yen in the first half of 2025), and a loss attributable to owners of parent of 191 million yen (loss attributable to owners of parent of 37 million yen in the first half of 2025).

(2) Explanation of Financial Position

(i) Assets, liabilities and net assets

Assets

Total assets at the end of the first half of 2026 stood at 10,309 million yen, an increase of 6,452 million yen from the end of 2025.

Current assets totaled 3,235 million yen at the end of the first half of 2026, an increase of 1,655 million yen from the end of 2025. This was mainly attributable to increases of 1,219 million yen in cash and deposits, 356 million yen in accounts receivable - trade and contract assets, and 87 million yen in prepaid expenses, despite a 4 million yen decrease in allowance for doubtful accounts. Non-current assets increased by 4,796 million yen from the end of 2025, to 7,073 million yen. This mainly reflected an increase of 6,290 million yen in intangible assets resulting from an increase of 5,456 million yen in goodwill, and a decrease of 1,570 million yen in investment and other assets.

Liabilities

Total liabilities at the end of the first half of 2026 stood at 4,149 million yen, an increase of 1,645 million yen from the end of 2025. This was largely due to increases of 188 million yen in accounts payable - trade, 55 million yen in accounts payable - other, 111 million yen in income taxes payable, 46 million yen in deposits received, 83 million

yen in advances received, 500 million yen in short-term borrowings, 134 million yen in current portion of long-term borrowings, and 340 million yen in long-term borrowings.

As of June 30, 2026, the ratio of current assets to current liabilities stood at 86.8% (63.4% as of December 31, 2025). 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 negotiations for refinancing into long-term borrowings are also progressing. Therefore, Headwaters believes that there are no significant uncertainties regarding its going concern assumption.

Net assets

Total net assets at the end of the first half of 2026 were 6,159 million yen, an increase of 4,806 million yen from the end of 2025. This was mainly attributable to increases in share capital of 6 million yen and capital surplus of 4,997 million yen, and a decrease in retained earnings of 187 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”) increased 1,219 million yen from the end of 2025 to a total of 1,844 million yen at the end of the first half of 2026.

The following is a summary of cash flows and major factors in the first half of 2026.

Cash flows from operating activities

Net cash provided by operating activities was 465 million yen (2 million yen provided in the first half of 2025).

This was mainly due to loss before income taxes of 78 million yen, depreciation of 36 million yen, amortization of goodwill of 61 million yen, loss on step acquisitions of 207 million yen, decrease in trade receivables and contract assets of 130 million yen, loss on valuation of derivatives of 45 million yen, and increase in trade payables of 20 million yen.

Cash flows from investing activities

Net cash provided by investing activities was 918 million yen (8 million yen used in the first half of 2025).

This was mainly due to proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation of 953 million yen, partially offset by purchase of property, plant and equipment of 22 million yen and purchase of intangible assets of 32 million yen.

Cash flows from financing activities

Net cash used in financing activities was 168 million yen (no cash flow was generated in the first half of 2025).

This was mainly due to repayments of long-term borrowings of 166 million yen and purchase of treasury shares of 1 million yen.

(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. Interim Consolidated Financial Statements and Notes

(1) Interim Consolidated Balance Sheet

(Thousands of yen)

	Fiscal Year 2025 (As of Dec. 31, 2025)	Second quarter of Fiscal Year 2026 (As of Jun. 30, 2026)
Assets		
Current assets		
Cash and deposits	625,145	1,844,881
Accounts receivable - trade and contract assets	828,670	1,184,801
Work in process	17,349	17,473
Advance payments to suppliers	30,250	-
Prepaid expenses	55,715	142,987
Other	23,672	50,347
Allowance for doubtful accounts	(200)	(4,631)
Total current assets	1,580,604	3,235,860
Non-current assets		
Property, plant and equipment	46,597	123,759
Intangible assets		
Goodwill	154,603	5,611,307
Other	7,136	840,621
Total intangible assets	161,740	6,451,929
Investments and other assets		
Shares of subsidiaries and associates	1,869,831	-
Derivatives	103,230	57,885
Other	95,096	439,837
Total investments and other assets	2,068,157	497,723
Total non-current assets	2,276,495	7,073,412
Total assets	3,857,099	10,309,272
Liabilities		
Current liabilities		
Accounts payable - trade	216,057	404,519
Accounts payable - other	47,122	102,712
Accrued expenses	200,230	229,636
Accrued consumption taxes	82,601	101,403
Income taxes payable	4,018	115,689
Contract liabilities	1,286	3,354
Deposits received	41,311	88,135
Advances received	-	83,378
Provision for loss on orders received	1,140	-
Provision for bonuses	-	44,242
Short-term borrowings	1,900,000	2,400,000
Current portion of long-term borrowings	-	134,328
Other	14	27,346
Total current liabilities	2,493,782	3,734,747
Non-current liabilities		
Long-term borrowings	-	340,368
Asset retirement obligations	6,710	30,506
Deferred tax liabilities	1,294	-
Other	-	41,607
Provision for long service awards	2,390	2,390
Total non-current liabilities	10,395	414,872
Total liabilities	2,504,177	4,149,620

	(Thousands of yen)	
	Fiscal Year 2025 (As of Dec. 31, 2025)	Second quarter of Fiscal Year 2026 (As of Jun. 30, 2026)
Net assets		
Shareholders' equity		
Share capital	389,887	396,396
Capital surplus	379,887	5,377,269
Retained earnings	560,510	373,053
Treasury shares	(227)	(2,051)
Total shareholders' equity	1,330,057	6,144,667
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(3,084)	(14,432)
Foreign currency translation adjustment	2,019	4,619
Total accumulated other comprehensive income	(1,064)	(9,813)
Non-controlling interests	23,929	24,797
Total net assets	1,352,921	6,159,652
Total liabilities and net assets	3,857,099	10,309,272

(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 2025 (Jan. 1, 2025 – Jun. 30, 2025)	First six months of Fiscal Year 2026 (Jan. 1, 2026 – Jun. 30, 2026)
Net sales	1,637,995	3,351,490
Cost of sales	924,310	1,846,653
Gross profit	713,685	1,504,837
Selling, general and administrative expenses	735,724	1,233,038
Operating profit (loss)	(22,038)	271,799
Non-operating income		
Interest income	427	3,842
Foreign exchange gains	3,191	-
Subsidy income	1,580	3,200
Other	314	2,591
Total non-operating income	5,512	9,634
Non-operating expenses		
Interest expenses	6	21,368
Share of loss of entities accounted for using equity method	-	79,365
Foreign exchange losses	-	5,199
Loss on valuation of derivatives	56,635	45,344
Other	-	555
Total non-operating expenses	56,642	151,832
Ordinary profit (loss)	(73,168)	129,600
Extraordinary losses		
Loss on step acquisitions	-	207,118
Loss on retirement of non-current assets	-	889
Total extraordinary losses	-	208,007
Loss before income taxes	(73,168)	(78,407)
Income taxes	(42,998)	107,958
Total income taxes	(42,998)	107,958
Loss	(30,170)	(186,365)
Profit attributable to non-controlling interests	7,141	5,622
Loss attributable to owners of parent	(37,311)	(191,987)

Interim Consolidated Statement of Comprehensive Income

(Thousands of yen)

	First six months of Fiscal Year 2025 (Jan. 1, 2025 – Jun. 30, 2025)	First six months of Fiscal Year 2026 (Jan. 1, 2026 – Jun. 30, 2026)
Loss	(30,170)	(186,365)
Other comprehensive income		
Valuation difference on available-for-sale securities	(17,890)	(13,866)
Foreign currency translation adjustment	1,343	3,466
Total other comprehensive income	(16,547)	(10,400)
Comprehensive income	(46,717)	(196,765)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(53,000)	(203,254)
Comprehensive income attributable to non-controlling interests	6,282	6,488

(3) Interim Consolidated Statement of Cash Flows

	(Thousands of yen)	
	First six months of Fiscal Year 2025 (Jan. 1, 2025 – Jun. 30, 2025)	First six months of Fiscal Year 2026 (Jan. 1, 2026 – Jun. 30, 2026)
Cash flows from operating activities		
Loss before income taxes	(73,168)	(78,407)
Depreciation	11,231	36,378
Amortization of goodwill	-	61,606
Loss (gain) on step acquisitions	-	207,118
Increase (decrease) in provision for bonuses	-	(62,110)
Increase (decrease) in provision for loss on orders received	(2,826)	(1,140)
Interest income	(427)	(3,812)
Decrease (increase) in trade receivables and contract assets	102,502	130,984
Loss (gain) on valuation of derivatives	56,635	45,344
Decrease (increase) in inventories	(6,808)	1,627
Increase (decrease) in trade payables	34,273	20,707
Increase (decrease) in contract liabilities	(6,876)	13,848
Increase (decrease) in accounts payable - other	14,698	(16,766)
Increase (decrease) in accrued expenses	8,742	-
Increase (decrease) in accrued consumption taxes	(45,927)	(6,648)
Interest expenses	-	21,472
Subsidy income	(1,580)	(3,200)
Share of loss (profit) of entities accounted for using equity method	-	79,365
Loss (gain) on valuation of investment securities	-	(2,518)
Other, net	1,033	87,409
Subtotal	91,505	531,258
Interest received	427	3,812
Interest paid	-	(21,022)
Subsidies received	1,580	3,200
Income taxes paid	(91,380)	(51,680)
Net cash provided by (used in) operating activities	2,132	465,568
Cash flows from investing activities		
Purchase of property, plant and equipment	(8,850)	(22,392)
Proceeds from sale of property, plant and equipment	-	26,730
Loan advances	-	(2,779)
Purchase of intangible assets	-	(32,027)
Payments of leasehold and guarantee deposits	-	(3,498)
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	-	953,049
Other, net	-	(201)
Net cash provided by (used in) investing activities	(8,850)	918,879
Cash flows from financing activities		
Repayments of long-term borrowings	-	(166,132)
Proceeds from issuance of shares	-	500
Purchase of treasury shares	-	(1,824)
Other, net	-	(1,233)
Net cash provided by (used in) financing activities	-	(168,689)
Effect of exchange rate change on cash and cash equivalents	(3,416)	3,977
Net increase (decrease) in cash and cash equivalents	(10,134)	1,219,736
Cash and cash equivalents at beginning of period	843,233	625,145
Cash and cash equivalents at end of period	833,098	1,844,881

(4) Notes to Interim Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Significant Changes in the Scope of Consolidation During the Period

Following the absorption-type merger with BBD Initiative Inc., this company and its five subsidiaries were included in the scope of consolidation during the second quarter of 2026.

Significant Changes in Shareholders' Equity

Not applicable.

Changes in Accounting Policies

(Change in Accounting Treatment for Asset Retirement Obligations)

Previously, asset retirement obligations arising from obligations to restore leased real estate to its original condition under real estate lease agreements entered into by Headwaters were recognized as follows. The amount of leasehold deposits related to these real estate lease agreements that was ultimately not expected to be collected was reasonably estimated, with the portion attributable to each quarter recognized accordingly. However, to more appropriately reflect restoration obligations and the associated expenses in the financial statements in conjunction with the unification of the Group's accounting policies, the following accounting treatment has been applied since the beginning of the second quarter of 2026. Restoration costs are recognized as asset retirement obligations, while the corresponding removal costs are included in property, plant and equipment and depreciated over the relevant period.

This change in accounting policy has been applied retrospectively, and the consolidated financial statements for the previous fiscal year have been restated accordingly.

As a result, in the consolidated balance sheet for the previous fiscal year, buildings and structures, net increased by 4,107 thousand yen, deferred tax assets increased by 0 thousand yen, guarantee deposits included in investments and other assets increased by 2,603 thousand yen, and asset retirement obligations increased by 6,710 thousand yen, compared with the amounts reported prior to the retrospective application. In the interim consolidated statement of income for the first six months of 2025, operating profit increased by 6 thousand yen and income taxes - deferred increased by 0 thousand yen. Accordingly, profit and profit attributable to owners of the parent each increased by 0 thousand yen.

Additionally, the opening balance of retained earnings for the previous fiscal year increased by 0 thousand yen as a result of recognizing the cumulative effect of the change in net assets as of the beginning of the previous fiscal year.

(Application of Accounting Treatment Based on Japanese GAAP by Subsidiaries)

BBD Initiative Inc., our former holding company, previously prepared its financial statements in accordance with International Financial Reporting Standards (IFRS) but adopted Japanese GAAP effective from the fiscal year ending December 31, 2026.

This change is intended to unify the accounting standards applied by BBD Initiative Inc. with Japanese GAAP applied by its parent company, Headwaters Co., Ltd., in accordance with the Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22). This change was made because BBD Initiative Inc. ceased to meet the requirements for the transitional treatment provided under the Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries, etc. for Consolidated Financial Statements (ASBJ PITF No. 18), effective from the fiscal year ending December 31, 2026.

This change has been applied retrospectively, and the consolidated financial statements for the previous fiscal year have been restated accordingly.

As BBD Initiative Inc. was not an equity-method associate during the fiscal year ended December 31, 2025, this change had no impact on profit at any level during the first half of 2025.

Additionally, the opening balance of retained earnings for the previous fiscal year increased by 778 thousand yen as a result of recognizing the cumulative effect of the change in net assets as of the beginning of the previous fiscal year.

(Change in method of calculating tax expense)

Previously, income taxes for Headwaters and its consolidated subsidiaries were calculated using the same method as that applied in the preparation of the full-year financial statements. Effective from the second quarter of 2026, however, Headwaters has changed the calculation method to further streamline the interim financial reporting process. Under this method, Headwaters first reasonably estimates the effective tax rate after applying tax effect accounting applicable to profit before income taxes for the full fiscal year, including the first half, and then calculates income taxes for the first half by multiplying profit before income taxes for the first half by this estimated effective tax rate.

This change reflects the increased scale of the Group's consolidated operations and organizational structure following the absorption-type merger with BBD Initiative Inc., effective May 1, 2026. Headwaters determined that calculating tax expense by taking into account the effects of annual taxable income, tax credits, and tax-effect accounting would provide more useful information to users of the interim financial statements.

As a result, in the interim consolidated statement of income for the first half of 2025, operating profit increased by 2,333 thousand yen, income taxes decreased by 47,077 thousand yen, income taxes - deferred increased by 34,115 thousand yen, and profit and profit attributable to owners of the parent each increased by 15,296 thousand yen, compared with the amounts reported prior to the retrospective application.

(Accounting treatment specific to the preparation of interim consolidated financial statements)

(Calculation of tax expense)

Tax expense is calculated by reasonably estimating the effective tax rate after applying tax effect accounting applicable to profit before income taxes for the fiscal year including the first half of 2026, and multiplying profit before income taxes for the first half by this estimated effective tax rate.

Also, income taxes - deferred is included in income taxes - current.

Business Combinations

(Business Combination Through Acquisition)

1. Overview of the business combination

(1) Name and business of the acquired company

Name of the acquired company: BBD Initiative Inc.

Business: DX Business, BPO Business

(2) Main reasons for the business combination

The main reasons are the creation of new value by combining technologies and products, business growth by combining human resources, and an increase in financial soundness.

(3) Date of the business combination

May 1, 2026

(4) Legal form of the business combination

An absorption-type merger, in which Headwaters was the surviving company and BBD Initiative Inc. was dissolved

- (5) Company name after the business combination
Headwaters Co., Ltd.
- (6) Percentage of voting rights acquired
100%
2. Period of the acquired company's financial results included in the interim consolidated statement of income for the first half of the fiscal year
From May 1, 2026 to June 30, 2026
3. Breakdown of the acquisition cost of the acquired company by type of consideration

Fair value as of the business combination date of shares held immediately prior to the business combination date		1,583,109 thousand yen
Consideration for additional acquisition	Fair value of common stock delivered on the business combination date	4,990,872 thousand yen
Acquisition cost		6,573,981 thousand yen
4. Difference between the acquisition cost of the acquired company and the aggregate acquisition costs for each transaction resulting in the acquisition

Loss on step acquisitions	207,118 thousand yen
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5. Details and amounts of major acquisition-related expenses

Advisory fees, etc.	75,662 thousand yen
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6. Merger ratio by class of shares, its calculation method and number of shares delivered
 - (1) Merger ratio by class of shares
1 share of common stock of BBD Initiative Inc. for 0.5 shares of common stock of Headwaters
 - (2) Method for calculating the merger ratio
To ensure the fairness and appropriateness of the merger ratio, each company independently engaged a third-party valuation firm to calculate the merger ratio. Headwaters appointed Plutus Consulting Co., Ltd., while BBD Initiative Inc. appointed Akasaka International Tax Accounting. Based on the calculation results provided by their respective third-party valuation firms and advice from their legal advisors, and the results of due diligence conducted by each counterpart on the other, Headwaters and BBD Initiative Inc. comprehensively considered factors, including their respective financial conditions, asset positions, and future prospects. Following careful negotiations and discussions, the two companies determined that the merger ratio was appropriate and entered into the merger agreement accordingly.
 - (3) Number of shares delivered
2,260,359 shares
7. Amount of goodwill generated, reason for generation, amortization method and amortization period
 - (1) Amount of goodwill generated
5,518,310 thousand yen

The amount of goodwill was provisionally calculated, as the allocation of the acquisition cost had not been completed as of the end of the first half of 2026.

(2) Reason for generation

This was primarily attributable to the excess earnings capacity and synergies expected from future business expansion.

(3) Amortization method and amortization period

Straight-line method over 20 years

(Provisional Accounting Treatment)

The allocation of the acquisition cost has been accounted for on a provisional basis, as the valuation of identifiable assets and liabilities had not been completed as of the end of the first half of 2026.

The valuation remains ongoing, primarily with respect to the following:

Customer-related assets

Contract-related assets

Technology-related assets

Deferred tax assets and deferred tax liabilities

Upon completion of these valuations, the allocation of the acquisition cost may be adjusted accordingly.

(Changes in the Scope of Consolidation or Application of the Equity Method)

(Significant Changes in the Scope of Consolidation)

The subsidiaries of BBD Initiative Inc. listed below were included in the scope of consolidation during the second quarter of 2026 following the absorption-type merger with BBD Initiative Inc.

BlueTec Inc.

ArchitectCore Inc.

Net Business Support Ltd.

BoostMarketing Inc.

RocketStarter Inc.

These companies have been consolidated as subsidiaries since May 1, 2026.

Some qualify as specified subsidiaries.

Segment Information

1. Information on changes in 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 half of 2026.

Accordingly, the segment information for the first six 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 net sales and performance of the Group's reportable segments are as follows.

First six months of Fiscal Year 2025 (Jan. 1, 2025 – Jun. 30, 2025)

(Thousands of yen)

	Reportable segments				Adjustments (Note 1)	Amount on the interim consolidated financial statements (Note 2)
	Enterprise AI Solutions Business	AI Workflow Engineering Business	DATA & AI Engine Business	Total		
Net sales						
Sales to external customers	1,575,437	62,558	-	1,637,995	-	1,637,995
Inter-segment sales	8,814	134,024	-	142,838	(142,838)	-
Total	1,584,251	196,582	-	1,780,834	(142,838)	1,637,995
Segment profit (loss)	(21,506)	(748)	-	(22,255)	217	(22,038)

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 loss in the interim consolidated statement of income.

3. There is no information about the DATA & AI Engine Business in the first six 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 six months of Fiscal Year 2025.

First six months of Fiscal Year 2026 (Jan. 1, 2026 – Jun. 30, 2026)

(Thousands of yen)

	Reportable segments				Adjustments (Note 1)	Amount on the interim consolidated financial statements (Note 2)
	Enterprise AI Solutions Business	AI Workflow Engineering Business	DATA & AI Engine Business	Total		
Net sales						
Sales to external customers	2,327,218	682,474	341,798	3,351,490	-	3,351,490
Inter-segment sales	39,522	181,388	-	220,910	(220,910)	-
Total	2,366,740	863,862	341,798	3,572,400	(220,910)	3,351,490
Segment profit	196,454	74,702	456	271,616	182	271,799

Notes: 1. The segment profit adjustment of 182 thousand yen is for the elimination of inter-segment transactions, etc.

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

Significant Subsequent Events

Not applicable.