TRANSLATION - FOR REFERENCE ONLY

Outline of Financial Results for the Second Quarter of the Fiscal Year Ending March 2016

and

Conversion of U.S. Applied Engineering Company for Water and Wastewater Treatment into a Subsidiary



October 29, 2015
METAWATER Co., Ltd.

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I. Achievements in the Second Quarter of the Fiscal Year Ending March 2016

II. Conversion of U.S. Applied Engineering Company for Water and Wastewater Treatment into a Subsidiary

III. Outline of Financial Results in the Second Quarter of the Fiscal Year Ending March 2016

Segment Information and Abbreviations

Segment Information

❑Plant Engineering Segment (“PE” Segment)

This segment is primarily involved in various types of engineering work related to the design and construction of mechanical equipment used for water treatment processes in water treatment plants, sewage treatment processes and sludge treatment processes in sewage treatment plants as well as the design and construction of electrical equipment used to operate the said mechanical equipment.

❑Service Solution Segment (“SS” Segment)

This segment is primarily involved in various repair work, maintenance (maintenance and checking) and operational management of mechanical and electric equipment for water treatment plants, sewage treatment plants, waste treatment facilities and recycling facilities.

Abbreviations

EPC	Engineering, Procurement and Construction
O&M	Operation and Maintenance
PPP	Public-Private Partnership A method by which the private sector is involved in the provision of public services
PFI	Private Finance Initiative A method for public business by which the private sector is utilized for the designing, construction, maintenance, operation of and fund-raising for public facilities.
DBO	Design, Build and Operate A method for public business by which the private sector is used for the designing, construction, maintenance, and operation of public facilities.

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I. Achievements in the Second Quarter of the Fiscal Year Ending March 2016

II. Conversion of U.S. Applied Engineering Company for Water and Wastewater Treatment into a Subsidiary

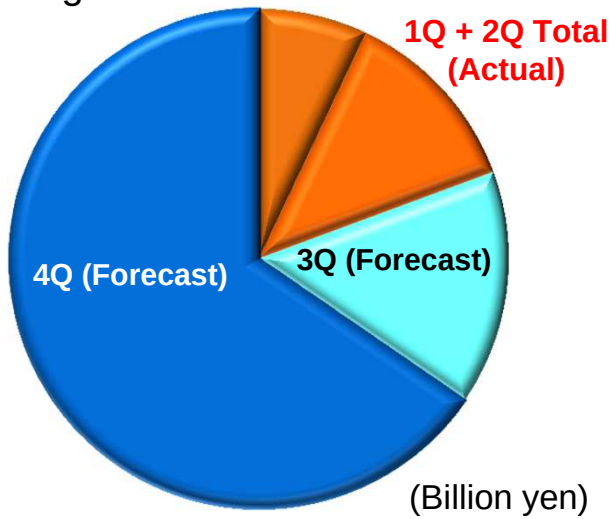
III. Outline of Financial Results in the Second Quarter of the Fiscal Year Ending March 2016

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Financial Highlights for the Second Quarter of Fiscal Year Ending March 2016 (Consolidated)

* Although both sales and profit decreased due to a concentration of EPC orders and sales in the second half, this fiscal year developed as planned in general.
* With received orders increasing according to plan as well, the annual financial forecast has remained unchanged.

Ratio of Quarters to Annual Sales for Fiscal Year Ending March 2016



(Billion yen)

	Orders	Net Sales	Operating Profit	Ordinary Income	Quarterly/Net Income
1Q + 2Q Total in FYE March 2016 (Actual)	**56.5** Down 6.2 from Previous Year	**21.5** Down 1.6 from Previous Year	**(5.7)** Down 1.8 from Previous Year	**(5.6)** Down 1.8 from Previous Year	**(3.9)** Down 1.4 from Previous Year
1Q + 2Q Total in FYE March 2015 (Actual)	62.7	23.1	(3.9)	(3.8)	(2.5)
Full Year Forecast in FYE March 2016 (Unchanged)	118.0	111.0	8.4	8.1	5.2

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Achievements in Fiscal Year Ending March 2016 Progress of Projects (1Q + 2Q)

PE Segment: Completed 20 Projects with Order Amount of 100 Million Yen or More

* Tokyo Metropolitan Government Bureau of Sewerage: Construction of a sludge incinerator dewatering facility in the Shingashi Water Recycling Center (2Q)
* Kofu City Waterworks and Sewerage Bureau: Extension work of a sludge incinerator facility (electric equipment) in Kofu City Wastewater Treatment Center (2Q)
* Okinawa Prefectural Enterprise Bureau: Construction of mechanical equipment for ozone treatment in the Shinishikawa Water Purification Plant (1Q)
* Tokyo Metropolitan Government Bureau of Waterworks: Improvement work for monitoring control equipment, etc. at seven sites outside the Murayama Yamaguchi Reservoir (1Q)

SS Segment: Started Two New Contracts for Operation and Maintenance

* Hirakata City, Osaka: Renewal of entrustment contract for operation and maintenance of the wastewater treatment facility in Nakamiya Wastewater Treatment Center (2Q)
* Sasebo City, Nagasaki Prefecture: Integration work of the Yamanota Water Treatment Plant (maintenance and operation) (1Q)
* Onagawa Town, Miyagi Prefecture: Wastewater treatment facilities development project of fishery processing complex (maintenance and operation) (1Q)

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Achievements in Fiscal Year Ending March 2016 Orders Received (1Q + 2Q)

Won Eight Large Projects Worth One Billion Yen or More Each

PE Segment: EPC

* Tokyo Metropolitan Government Bureau of Sewerage: Construction of a sludge incinerator dewatering facility in the Southern Sludge Treatment Plant (2Q)
* Mie Prefecture: Construction of a central control facility in Shitomogawa Wastewater Treatment Center (2Q)
* Ayabe City, Kyoto Prefecture: Installation of machines and equipment in the New No.1 Wastewater Treatment Facility (2Q)
* Kushiro City, Hokkaido: Construction of a water treatment plant for the third expansion project of the Aikoku Water Treatment Plant (1Q)

SS Segment: PPP (PFI/DBO)

* A contract was concluded for the development and operation of Gotemba Oyama Kouiki Gyousei Kumiai Recycling Center (2Q)
* Shikoku Chuo City, Ehime Prefecture: Renewal and operation of the Nakatai Water Treatment Plant, etc. (1Q)

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II. Conversion of U.S. Applied Engineering Company for Water and Wastewater Treatment into a Subsidiary

1. Outline of Aqua-Aerobic Systems, Inc.
2. Scheme for Conversion into Subsidiary
3. Background of Conversion into Subsidiary
4. Objectives of Conversion into Subsidiary
5. Toward Achieving Medium-Term Business Plan

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Overview of Aqua-Aerobic Systems, Inc. (AAS)

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Features

* Multiple products that have gained significant presence in the markets with their unique technologies.
  - Cloth media filter systems for tertiary treatment
  - Batch-type and flow-through biological processes - membrane systems
  - aerators - Mixing devices - process control systems, etc.

* Good track record in collaborations with sales agents, consulting firms and constructors across the U.S

* With a stable earnings base, it has posted a operating surplus for the past 10 years

Overview

Company Name	Aqua-Aerobic Systems, Inc.
Location	Illinois, U.S.A.
Representative	Mr. Robert J. Wimmer, President and CEO
Line of Business	Product engineering and maintenance service businesses focusing on water and wastewater treatment facilities and equipment
Establishment	May 1969
Net Sales **Operating Income**	US$ 68.9 M US$ 7.8 M * FY ended December 2014
No. of Employees	125

AQUA-AEROBIC SYSTEMS, INC.



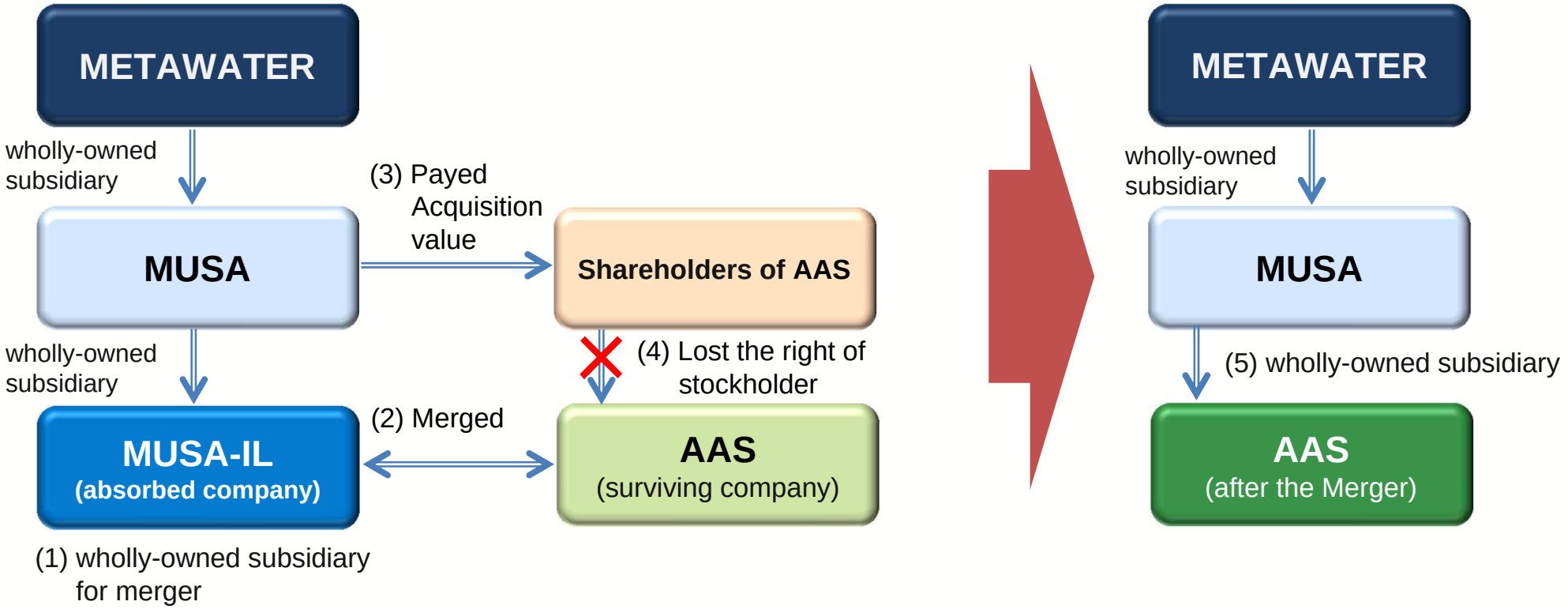
Mr. Robert J. Wimmer
President and CEO



Method of the acquisition

In compliance with provisions of the Business Corporation Act in Illinois, U.S., MUSA will make AAS its wholly owned subsidiary through a merger between AAS as the surviving company and MUSA's subsidiary for the purpose of merger MUSA-IL, INC. as the absorbed company.

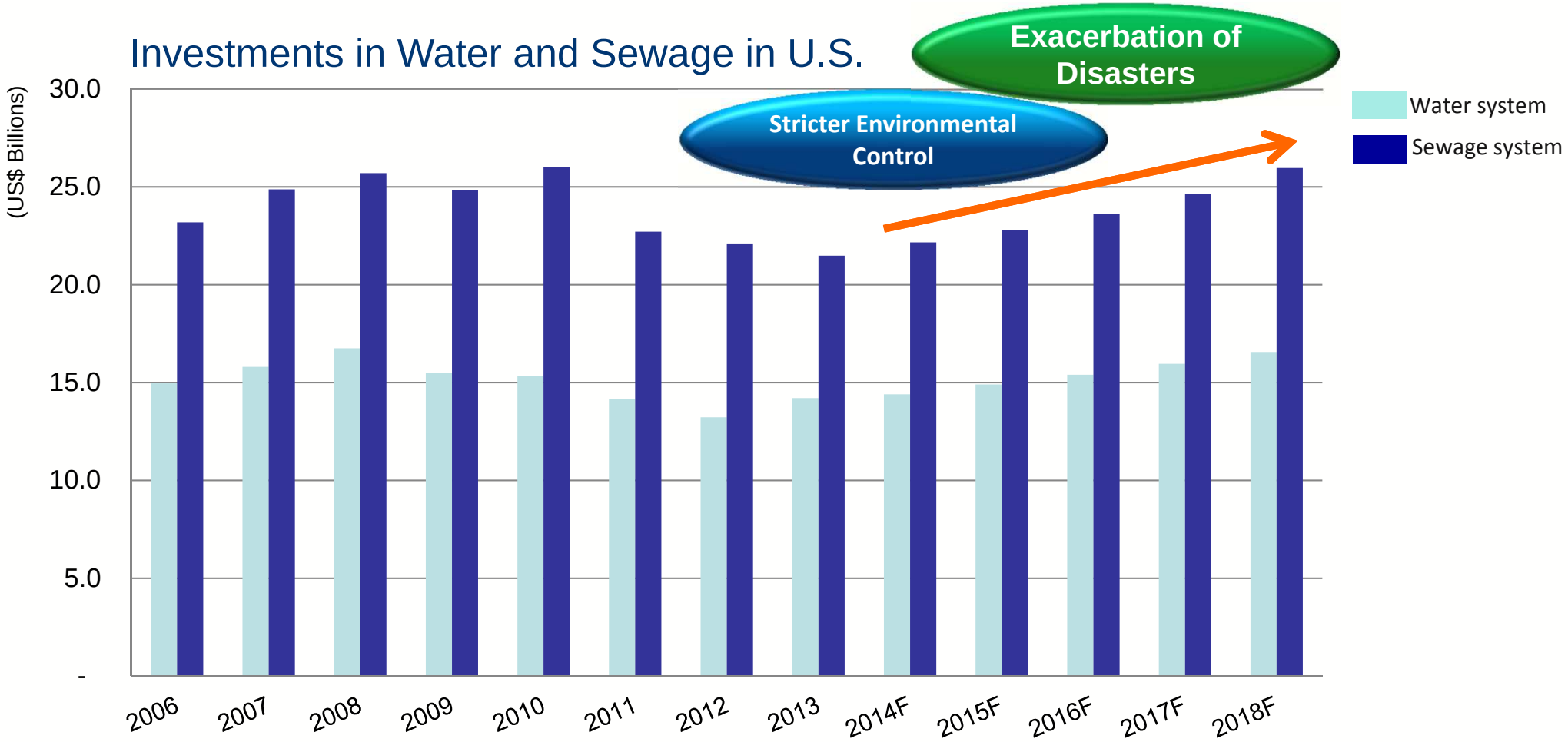
■ Scheme



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Background of the acquisition

The Company selected U.S., where market growth is projected, as strategic areas and accommodates with serious disasters and reinforcing environmental regulations.



* From the 2013 report by the Bureau of Economic Analysis, U.S. Department of Commerce

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Objectives of the acquisition

AQUA-AEROBIC SYSTEMS, INC.



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Cloth media filter systems for tertiary treatment



Batch-type and flow-through biological processes



Membrane systems



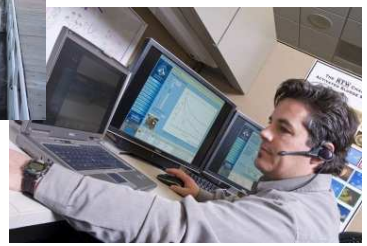
Aerators



Mixing devices



Process control systems



Provide Business Resources

Backed by the Company's management resources, AAS will engage in large projects and multiple deals more than ever.

Offer Business Platform in U.S.

The Company will be able to utilize the AAS Group's business platform to provide the Company's products.

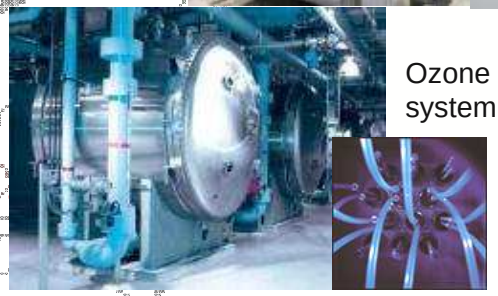
Joint-development of Technologies and Products

It will be possible to develop new products and solutions that meet each regional need by integrating the technologies and know-how.

Ceramic-membrane filtration systems



Ozone generation system



Circulation type multi-layer incinerator



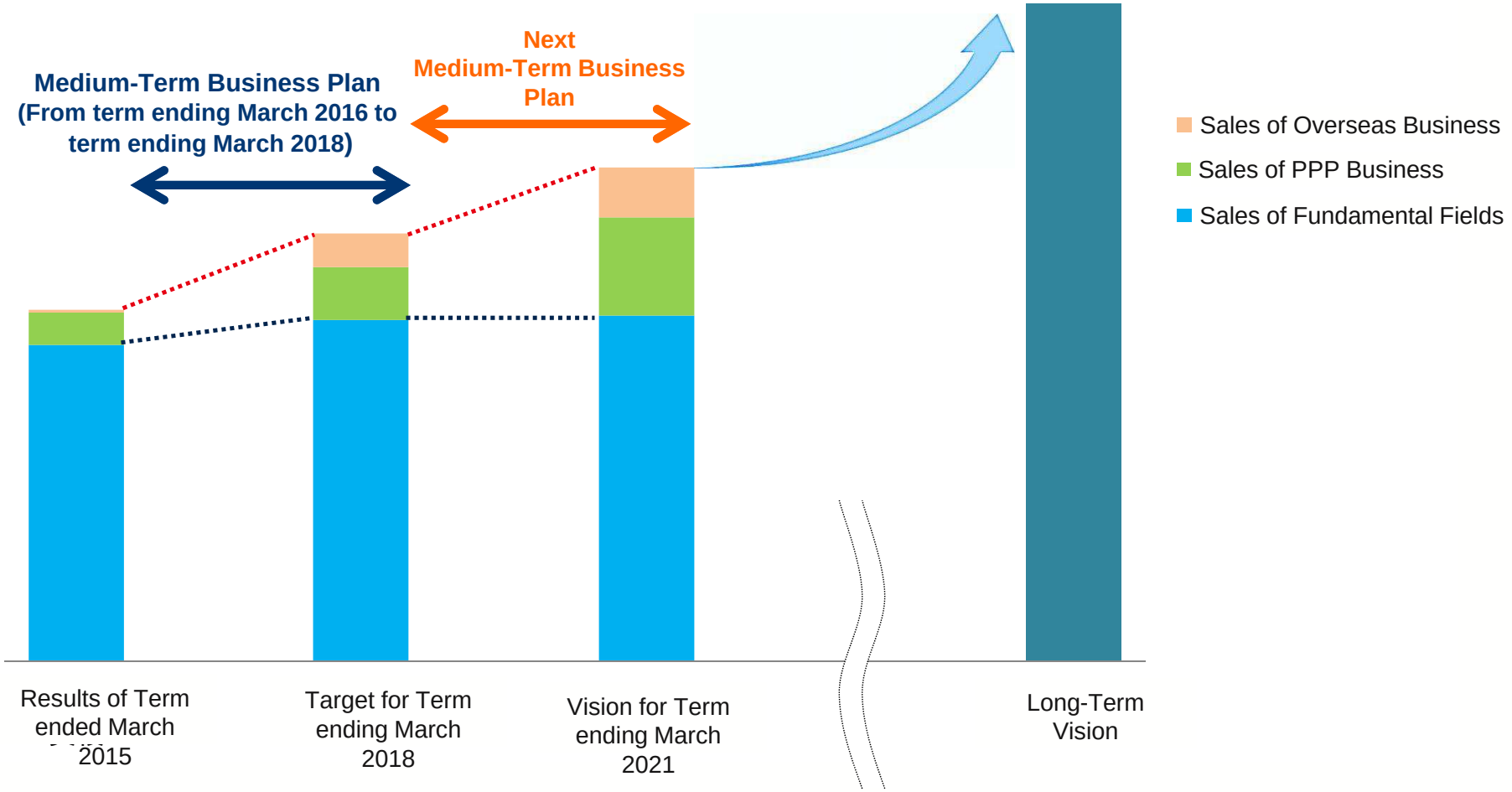
High-speed rainwater treatment system



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Toward Achieving Medium-Term Targets

By converting AAS into a subsidiary,
the Company will improve the probability of achieving overseas business targets in the medium-term business plan, and move forward to the next medium-term business plan and long-term vision.



* Fundamental Fields are defined as EPC business and O&M business in Japan.

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III. Outline of Financial Results in the Second Quarter of the Fiscal Year Ending March 2016

1. Consolidated Statement of Income
2. Particularity of the Company' Sales (by quarter)
3. Segment Information
4. Consolidated Balance Sheet
5. Status of Consolidated Cash Flows
6. Full-Year Financial Forecast

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Consolidated Statement of Income (Results of 1Q + 2Q Total in FYE March 2016)

■ This fiscal year has developed as expected in general although both sales and income declined year-on-year

(Billion yen)

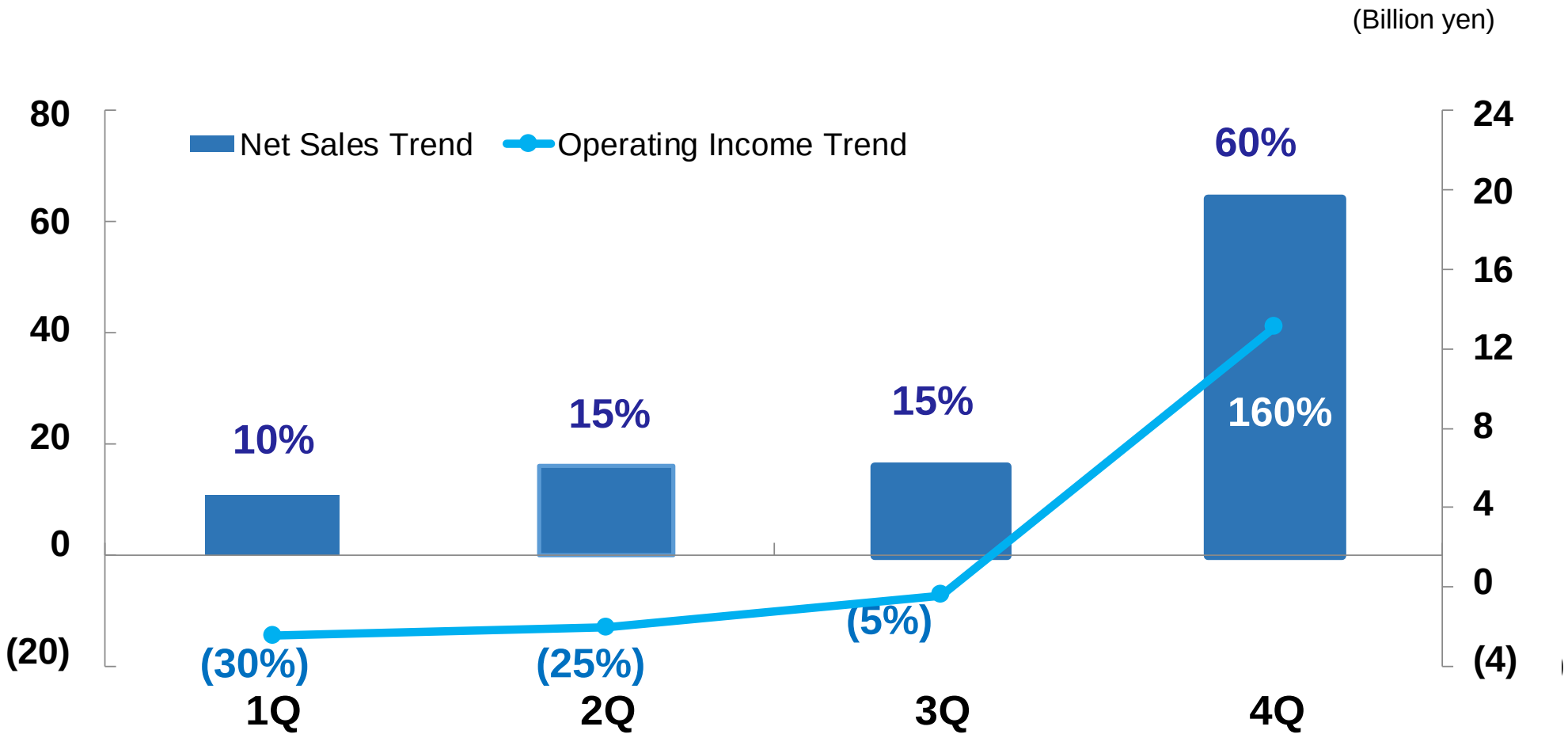
	1Q+2Q in FYE March 2015 (Actual)	1Q+2Q in FYE March 2016 (Actual)	Change
Net sales	23.1	21.5	(1.6)
Operating profit	(3.9)	(5.7)	(1.8)
(Operating margin)	(16.8%)	(26.4%)	
Ordinary income	(3.8)	(5.6)	(1.8)
Quarterly net income attributable to parent company shareholders	**(2.5)**	**(3.9)**	**(1.4)**

*** Rounded to the nearest 10 million yen**

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Particularity of the Company's Sales (by Quarter)

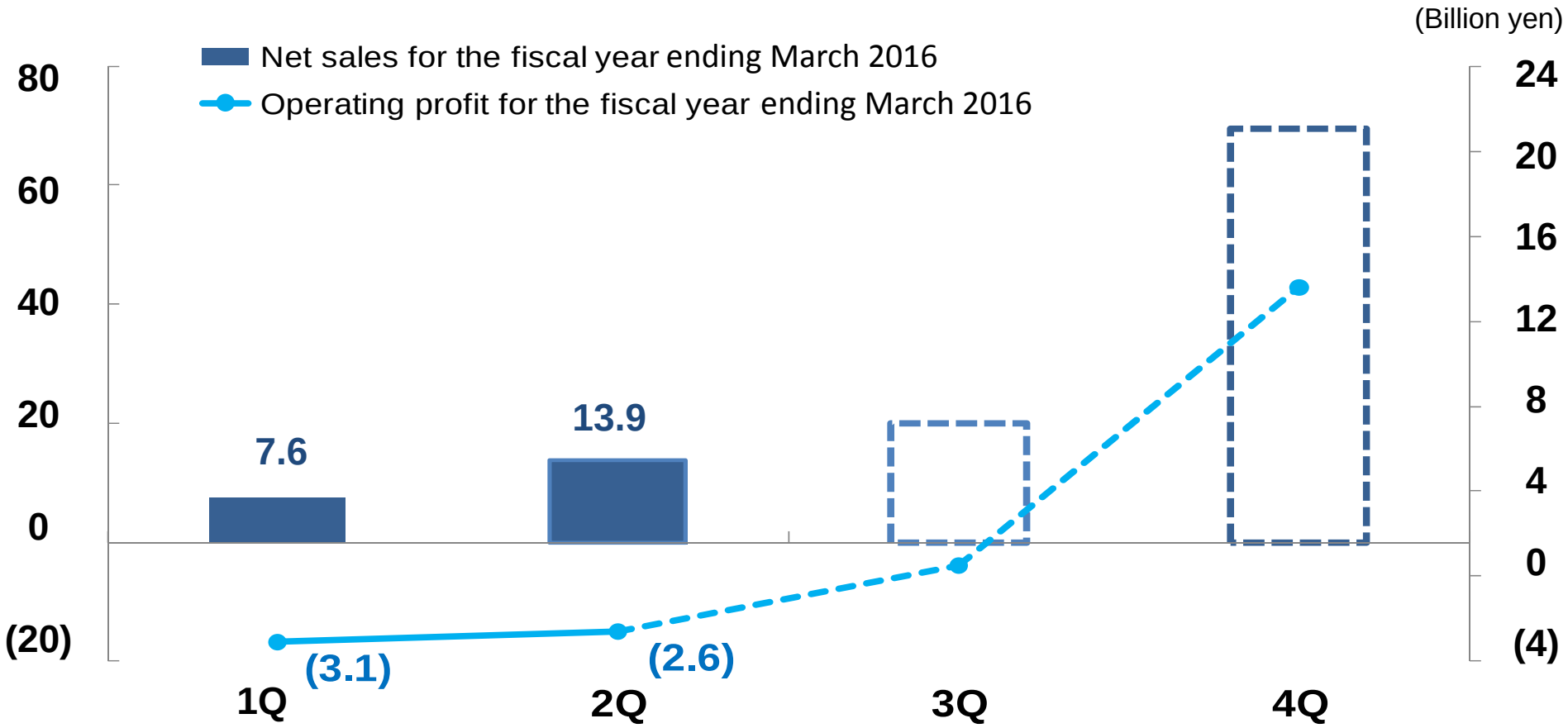
- The trend is that the recording of earnings concentrates in the fourth quarter.



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Particularity of the Company's Sales (by Quarter)

■ Business is generally progressing on according to the trend.



[Annual Total]	Net sales	Operating profit
Fiscal year ending Mar. 2016 (forecast)	¥111.0 billion	¥8.4 billion

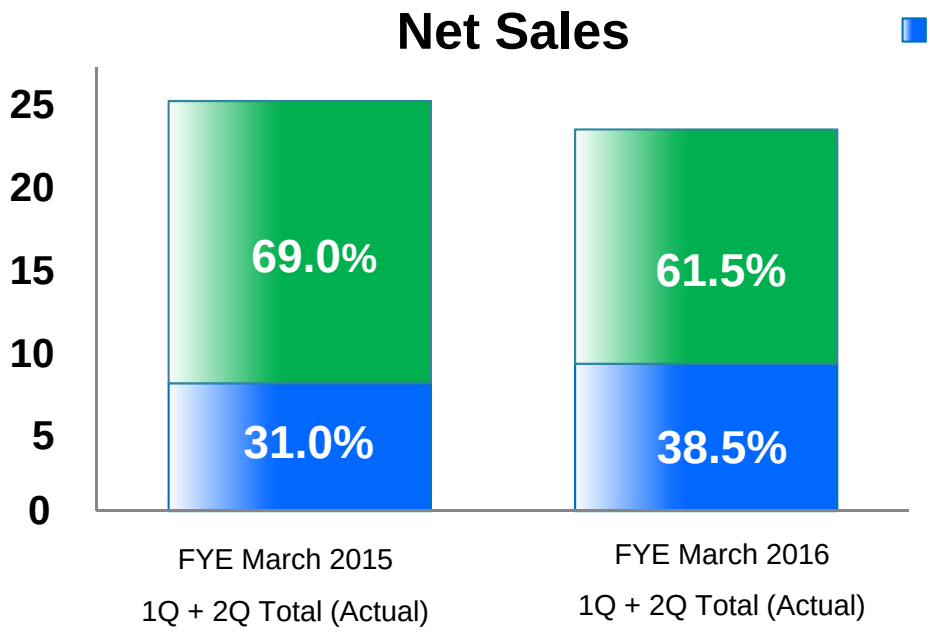
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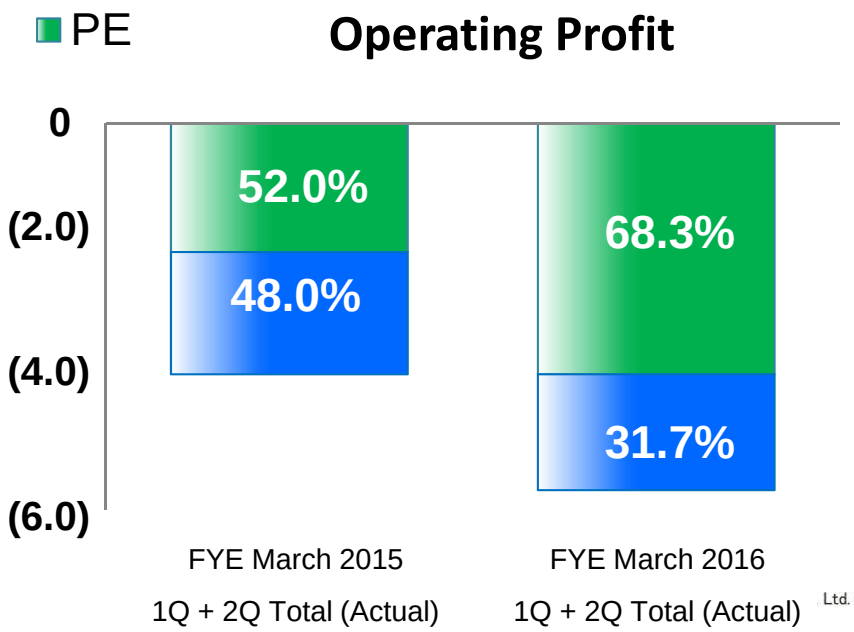
Segment Information

- **PE Segment:** Both net sales and operating profit decreased mainly due to a decline in large projects.
- **SS Segment:** Both net sales and operating profit rose primarily due to an increase in large projects.

(Billion yen)

	Net Sales			Operating Profit		
	FYE March 2015 1Q + 2Q Total (Actual)	FYE March 2016 1Q + 2Q Total (Actual)	Change	FYE March 2015 1Q + 2Q Total (Actual)	FYE March 2016 1Q + 2Q Total (Actual)	Change
PE	15.9	13.2	(2.7)	(2.0)	(3.9)	(1.9)
SS	7.2	8.3	+1.1	(1.9)	(1.8)	+0.1
Total	23.1	21.5	(1.6)	(3.9)	(5.7)	(1.8)





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Consolidated Balance Sheet

■ **Accounts receivable and accounts payable contracted as collections and payments at the end of FY2014 were completed.**

(Billion yen)

	FYE March 2015 Term-end Results	FYE March 2016 2Q End Results	Change
Cash and deposits	19.5	24.6	+5.1
Short-term investment securities *1	11.0	11.0	—
Notes and accounts receivable–trade	66.5	30.4	(36.1)
Inventories	5.1	11.1	+6.0
Others	2.8	5.3	+2.5
Total Current Assets	**104.9**	**82.4**	**(22.5)**
Property, plant and equipment	1.7	1.6	(0.1)
Intangible assets	2.1	1.9	(0.2)
Others	5.6	5.6	—
Total Fixed Assets	**9.4**	**9.1**	**(0.3)**
Total Assets	**114.3**	**91.5**	**(22.8)**

	FYE March 2015 Term-end Results	FYE March 2016 2Q End Results	Change
Accounts payable	34.3	9.8	(24.5)
Advance receipts	5.1	15.2	+10.1
Short-term loans payable *2	<0.8> 0.8	<0.8> 0.8	—
Others	8.2	4.3	(3.9)
Total Current Liabilities	**48.4**	**30.1**	**(18.3)**
Long-term loans payable *3	<13.7> 13.7	<13.6> 13.6	(0.1)
Others	4.4	4.4	—
Total Fixed Liabilities	**18.1**	**18.0**	**(0.1)**
Total Liabilities	66.5	48.1	(18.4)
Total Net Assets	47.8	43.4	(4.4)
Total Liabilities-Net Assets	**114.3**	**91.5**	**(22.8)**

* 1: Short-term securities are negotiable certificates of deposits.

* 2 and 3: The figures in parentheses are the amounts of project finance loan for PFI, etc.

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Consolidated Cash Flows

■ Free cash flow decreased by 4.5 billion yen.

(Billion yen)

	FYE March 2015 1Q + 2Q Total Results	FYE March 2016 1Q + 2Q Total Results	Change
Cash and cash equivalents at the end of the previous term	3.1	29.6	+26.5
Operating cash flow	11.4	6.5	(4.9)
Investing cash flow	(1.1)	(0.7)	+0.4
Free cash flow	10.3	5.8	(4.5)
Financing cash flow	(1.1)	(0.8)	+0.3
Cash and cash equivalents at the end of the term	12.3	34.6	+22.3

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Full-year Financial Forecasts

(Billion yen)

	FYE March 2015 (Actual)	FYE March 2016 (Forecast)	Change
Net sales	106.9	111.0	+4.1
Operating profit	8.2	8.4	+0.2
(Operating margin)	7.7%	7.6%	
Ordinary income	8.2	8.1	(0.1)
Quarterly net income attributable to parent company shareholders	**5.0**	**5.2**	**+0.2**
Orders	117.2	118.0	+0.8

*** Rounded to the nearest 10 million yen**

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Disclosure Policy

1. Basic Policy

Based on its corporate philosophy, the METAWATER Group strives to become a corporate group that meets expectations of every stakeholder, garners trust from society and continuously contributes to society so as to achieve sustainable growth in society. In accordance with this viewpoint, the METAWATER Group discloses corporate information related to the Group to stakeholders and society in an equal, fair, timely and appropriate manner. It also promotes active communication with stakeholders to facilitate understanding of the METAWATER Group and ensure highly transparent and reliable business operations.

2. Basics of information disclosure

The METAWATER Group discloses corporate information whose disclosure is required by relevant laws such as the Companies Act, the Financial Instruments and Exchange Act, and rules set out by financial instruments exchanges in accordance with the applicable laws, regulations or rules. Even if the corporate information does not fall under such information, the Group proactively discloses information as much as possible when it is deemed to be useful for stakeholders or disclosure is deemed to be necessary for society.

3. Method of information disclosure

For corporate information whose disclosure is required by the above-mentioned laws, regulations and rules, the Group discloses information in a manner set out by the applicable laws, regulations or rules, and through the Company's website. Information that does not fall under such information is disclosed through the media, the Company's website or other appropriate means in consideration of its significance and urgent needs.

4. Communication after information is disclosed

The METAWATER Group actively communicates with stakeholders regarding disclosed information by answering questions in a conference, briefings meeting, interviews and inquiries. Opinions received from stakeholders through communication are shared within the Company's Group and treated as future reference.

5. Silent Period

In order to prevent the leaks of accounts closing information and ensure fairness, the Group sets a silent period that starts on the day after the closing date (including quarterly periods) through to the day of announcing financial statements. During this silent period, the Group does not answer any questions in a conference, briefings meeting, interviews and inquiries regarding the accounts closing and business prospects, except where information on a revision of business forecasts is disclosed.

6. Forward-looking statements

Of business forecasts, strategies and targets disclosed by the METAWATER Group, forward-looking statements are made based on information available to the Company's Group as of the date of disclosure and a certain grounds that are deemed to be reasonable. Actual performance may differ from forecasts as a result of various factors.

7. Establishment of Internal Structure

The METAWATER Group builds an internal structure and establishes internal rules so as to comply with this Disclosure Policy, disclose information in an appropriate manner, and communicate with stakeholders.

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