

2. Dividends

Period	Dividends per share				
	1Q	2Q	3Q	4Q	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2015	—	2,900.00	—	29.00	—
Fiscal year ending March 31, 2016	—	29.00	—		
Fiscal year ending March 31, 2016 (Forecast)				29.00	58.00

Note: Revision of forecast for dividends from the latest announcement: No

The Company has executed a 100-for-1 stock split of its common stock as of October 1, 2014. Annual dividend for the fiscal year ended March 31, 2015 is 58.00 yen assuming the stock split was conducted on April 1, 2014.

3. Forecast for consolidated operating results for the fiscal year ending March 31, 2016

(Percentages are year-to-year changes)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		Net income per share - Basic -
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Fiscal year ending March 31, 2016	103,000	(3.7)	5,200	(36.7)	5,200	(36.7)	2,700	(45.9)	104.15

Note: Revision of forecast for operating results from the latest announcement: Yes

Notes:

- (1) Changes in significant subsidiaries during the nine months ended December 31, 2015 (Changes in specified subsidiaries that caused a change in the scope of consolidation) : No
- (2) Application of accounting method specific to preparation of quarterly consolidated financial statements: Yes
- (3) Changes in accounting policies, changes in accounting estimates and retrospective restatement
 - (a) Changes by a newly issued or amended accounting pronouncement: Yes
 - (b) Changes other than (3)-(a) above: No
 - (c) Changes in accounting estimates: No
 - (d) Retrospective restatement: No
- (4) Number of shares issued and outstanding (common stock)
 - (a) Number of shares issued and outstanding at the end of the period (including treasury stock): 25,923,500 shares as of March 31, 2015 and 25,923,500 shares as of December 31, 2015.
 - (b) Number of treasury stock at the end of the period: Nil shares as of March 31, 2015 and nil shares as of December 31, 2015.
 - (c) Average number of shares issued and outstanding for the period: 15,509,091 shares for the nine months ended December 31, 2014 and 25,923,500 shares for the nine months ended December 31, 2015.

Note: The Company executed a 100-for-1 stock split of its common stock and implements the share unit system, by which 100 shares turn to a share unit with October 1, 2014 as the effective date. Number of shares issued and outstanding (common stock) is calculated based on the assumption that the stock split was conducted on April 1, 2014.

Information Regarding the Quarterly Review Procedures to be performed by the External Auditor

At the time of disclosure of this report, the procedures for review of quarterly consolidated financial statements, pursuant to the "Financial Instruments and Exchange Act" of Japan, have not been completed.

Appropriate Use of Forecasts and Other Matters

Descriptions and statements in relation to estimates and other forward-looking projections disclosed in this document are based on judgments and assumptions using information currently available to the Company. Actual results may differ significantly from such projections due to risks of uncertainty inherent in such judgments and assumptions as well as changes in business operations and the internal and external environment of the Company. As such, the Company does not guarantee the accuracy of any forward-looking projections disclosed.

Contents

1. Qualitative Information Regarding Consolidated Results for the Nine Months Ended December 31, 2015	5
(1) Explanation of Operating Results	5
(2) Explanation of Financial Position	6
(3) Explanation of Consolidated Business Forecast	6
2. Matters Regarding Summary Information (notes)	7
(1) Changes in Significant Subsidiaries during the Period	7
(2) Application of Accounting Method Specific to Preparation of Quarterly Consolidated Financial Statements	7
(3) Changes in Accounting Policies, Changes in Accounting Estimates and Retrospective Restatement	7
3. Quarterly Consolidated Financial Statements	8
(1) Quarterly Consolidated Balance Sheets	8
(2) Quarterly Consolidated Statement of Income and Quarterly Statement of Comprehensive Income	10
(3) Notes on Quarterly Consolidated Financial Statements	12
Notes on Going Concern Assumption	12
Notes on Significant Changes in Shareholders' Equity	12
Segment Information	12
Significant Subsequent Events	13

1. Qualitative Information Regarding Consolidated Results for the Nine Months Ended December 31, 2015

(1) Explanation of Operating Results

Descriptions and statements in relation to forward-looking projections disclosed in this document reflect the judgment of the Group as of December 31, 2015.

During the nine months ended December 31, 2015, business conditions of the Japanese economy have generally continued to recover moderately, as shown in improving labor market and salary levels as a result of implementation of economic and monetary policy set out by the Government, although some signs of economic recovery are weak. With respect to the world economy, despite economic slowdown in emerging countries including China and deteriorating situations in the Middle East, moderate economic recovery has been achieved mainly in the United States and Europe.

Domestic business environment surrounding the Group has continued to face challenges such as a gradual decrease in public investments and a sharp increase in labor costs arising from shortage of human resources.

Consequently, on May 29, 2015, the Group developed “Midterm business plan (from the fiscal year ending March 31, 2016 to 2018)” to work on establishment of strong business foundations and development of new solutions, as well as business expansion in cooperation with local companies and partner companies in Japan.

For the consolidated operating results of the Group for the nine months ended December 31, 2015, Plant Engineering Business posted weaker results in both sales and operating income as compared to the nine months ended December 31, 2014, and Service Solutions Business recorded a slight increase in sales but a decline in operating income as compared to the nine months ended December 31, 2014. Overall, the operating results for the current period underperformed the same period in 2014.

For the nine months ended December 31, 2015, net sales was ¥37,448 million (10.4% decrease year to year), operating loss was ¥6,233 million (¥3,273 million for the nine months ended December 31, 2014), ordinary loss was ¥6,223 million (¥3,124 million for the nine months ended December 31, 2014) and loss attributable to owners of parent was ¥4,446 million (¥2,004 million for the nine months ended December 31, 2014).

Our business consists mostly of the domestic public work projects for government agencies, which are typically developed and completed intensively in the fourth quarter. As a result, operating results of the first three quarters tend to be low, and this fiscal year is no exception. Sales orders, which amounted to ¥86,146 million year to date, remained at the same level as the nine months ended December 31, 2014.

Operating results by segment are as follows:

(Plant Engineering Business)

For Plant Engineering Business, orders amounted to ¥49,723 million; net sales amounted to ¥23,376 million (16.2% decrease year to year) due to delays in receipt of orders for certain projects and an increase in long-term projects whose sales were not recorded during this period; and operating loss amounted to ¥4,359 million (¥1,768 million for the nine months ended December 31, 2014) due to a decrease in sales.

(Service Solutions Business)

For Service Solutions Business, orders amounted to ¥36,423 million; net sales amounted to ¥14,071 million (1.2% increase year to year); and operating loss amounted to ¥1,873 million (¥1,504 million

for the nine months ended December 31, 2014) due to a decline in margin for certain large project.

(2) Explanation of Financial Position

Total assets as of December 31, 2015 decreased by ¥19,831 million compared to March 31, 2015 to ¥94,426 million.

Current assets decreased by ¥19,453 million compared to March 31, 2015 to ¥85,470 million due to a decrease in cash and deposits and notes and accounts receivable - trade.

Non-current assets decreased by ¥377 million compared to March 31, 2015 to ¥8,956 million.

Current liabilities decreased by ¥13,674 million compared to March 31, 2015 to ¥34,701 million due to a decrease in accounts payable - trade, offsetting with an increase in advances received.

Non-current liabilities decreased by ¥466 million compared to March 31, 2015 to ¥17,641 million due to a decrease in PFI and other project finance loans.

Total net assets decreased by ¥5,690 million compared to March 31, 2015 to ¥42,083 million due to recognition of loss attributable to owners of parent and payment of dividends.

(3) Explanation of Consolidated Business Forecast

METAWATER Co., Ltd. revised its consolidated business forecast for the fiscal year ending March 31, 2016 released on April 24, 2015, considering the operating result for the nine months ended December 31, 2015. For further information, please refer to “Revision of full-year earnings forecast” issued on January 27, 2016.

Please note that actual results may differ from the forecast due to various factors.

2. Matters Regarding Summary Information (notes)

(1) Changes in Significant Subsidiaries during the Period

No items to report.

(2) Application of Accounting Method Specific to Preparation of Quarterly Consolidated Financial Statements

(Calculation of Tax Expenses)

Tax expenses are calculated by reasonably estimating the effective tax rate applied to income before income taxes for the consolidated fiscal year including the nine months ended December 31, 2015 after applying tax effect accounting, and multiplying such effective tax rate with income before income taxes for the quarter.

(3) Changes in Accounting Policies, Changes in Accounting Estimates and Retrospective Restatement

(Changes in Accounting Policies)

“Accounting Standard for Business Combinations (Accounting Standards Board of Japan (“ASBJ”) Statement No. 21, September 13, 2013)”, “Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22, September 13, 2013)” and “Accounting Standard for Business Divestures (ASBJ Statement No.7, September 13, 2013) have been applied from the three months ended June 30, 2015 and there is a change in presentation of net income and a change from “minority interest” to “non-controlling interest”. Amounts for the nine months ended December 31, 2014 and for the fiscal year ended March 31, 2015 have been reclassified in these quarterly consolidated financial statements in order to reflect such change in presentation.

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

	(Millions of yen)	
	As of March 31, 2015	As of December 31, 2015
Assets		
Current assets		
Cash and deposits	19,534	17,718
Notes and accounts receivable - trade	66,549	34,403
Securities	11,000	10,000
Work in process	2,753	14,780
Supplies	2,394	2,219
Other current assets	2,691	6,347
Total current assets	104,923	85,470
Non-current assets		
Property, plant and equipment	1,706	1,606
Intangible assets	2,139	1,792
Investments and other assets	5,489	5,556
Total non-current assets	9,334	8,956
Total assets	114,257	94,426

(1) Quarterly Consolidated Balance Sheets (continued)

(Millions of yen)

	As of March 31, 2015	As of December 31, 2015
Liabilities		
Current liabilities		
Accounts payable - trade	31,664	11,964
Current portion of PFI and other project finance loans	801	831
Income taxes payable	2,994	243
Advances received	5,130	16,889
Provision for warranties for completed construction	875	496
Provision for loss on construction contracts	68	146
Other current liabilities	6,840	4,128
Total current liabilities	48,376	34,701
Non-current liabilities		
PFI and other project finance loans	13,663	13,235
Liability for retirement benefit	4,444	4,406
Total non-current liabilities	18,108	17,641
Total liabilities	66,484	52,343
Net assets		
Shareholders' equity		
Capital stock	11,946	11,946
Capital surplus	15,080	15,080
Retained earnings	23,273	17,323
Total shareholders' equity	50,300	44,350
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	33	31
Deferred loss on hedging instruments	—	(5)
Foreign currency translation adjustment	11	3
Remeasurements of defined benefit plans	(2,670)	(2,410)
Total accumulated other comprehensive income	(2,626)	(2,381)
Non-controlling interest	98	113
Total net assets	47,773	42,083
Total liabilities and net assets	114,257	94,426

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

Quarterly Consolidated Statement of Income

(Millions of yen)

	Nine months ended December 31, 2014	Nine months ended December 31, 2015
Net sales	41,792	37,448
Cost of sales	35,769	34,116
Gross profit	6,022	3,332
Selling, general and administrative expenses	9,295	9,565
Operating loss	(3,273)	(6,233)
Non-operating income:		
Interest income	188	187
Dividends income	24	32
Foreign exchange gains, net	205	1
Miscellaneous income	26	16
Total non-operating income	445	237
Non-operating expenses:		
Interest expenses	144	131
Loss on disposal of non-current assets	46	96
Stock issuance expenses	80	—
Miscellaneous loss	26	0
Total non-operating expenses	297	228
Ordinary loss	(3,124)	(6,223)
Loss before income taxes	(3,124)	(6,223)
Income taxes	(1,127)	(1,793)
Net loss	(1,996)	(4,429)
Net profit attributable to non-controlling interests	7	16
Loss attributable to owners of parent	(2,004)	(4,446)

Quarterly Consolidated Statement of Comprehensive Income

(Millions of yen)

	Nine months ended December 31, 2014	Nine months ended December 31, 2015
Net loss	(1,996)	(4,429)
Other comprehensive income		
Valuation difference on available-for-sale securities	17	(2)
Deferred loss on hedging instruments	—	(5)
Foreign currency translation adjustment	(105)	(7)
Remeasurements of defined benefit plans	207	259
Total other comprehensive income	120	245
Comprehensive loss	(1,876)	(4,184)
(Details)		
Comprehensive loss attributable to owners of parent	(1,884)	(4,201)
Comprehensive income attributable to non-controlling interests	7	16

(3) Notes on Quarterly Consolidated Financial Statements

Notes on Going Concern Assumption

No items to report.

Notes on Significant Changes in Shareholders' Equity

No items to report.

Segment Information

Nine months ended December 31, 2014

(Millions of yen)

	Reportable segments			Adjustments	Consolidated
	Plant Engineering Business	Service Solutions Business	Total		
Net Sales					
Sales to third parties	27,886	13,905	41,792	—	41,792
Inter-segment transactions and transfers	—	—	—	—	—
Net sales	27,886	13,905	41,792	—	41,792
Segment loss	(1,768)	(1,504)	(3,273)	—	(3,273)

Note: Segment loss is based on operating loss. There is no difference between segment loss and operating loss recorded on the quarterly consolidated statement of income.

Nine months ended December 31, 2015

(Millions of yen)

	Reportable segments			Adjustments	Consolidated
	Plant Engineering Business	Service Solutions Business	Total		
Net Sales					
Sales to third parties	23,376	14,071	37,448	—	37,448
Inter-segment transactions and transfers	—	—	—	—	—
Net sales	23,376	14,071	37,448	—	37,448
Segment loss	(4,359)	(1,873)	(6,233)	—	(6,233)

Note: Segment loss is based on operating loss. There is no difference between segment loss and operating loss recorded on the quarterly consolidated statement of income.

Significant Subsequent Events

(Business combination through acquisition)

Metawater Co., Ltd. acquired 100% of outstanding shares of Aqua-Aerobic Systems, Inc. (hereinafter the "AAS"), a private company in the United States, through METAWATER USA, INC. (hereinafter the "MUSA"), a subsidiary of Metawater Co., Ltd. in the United States.

1. Summary on the business combination

(1) Company name and business of the acquiree

Company name Aqua-Aerobic Systems, Inc.

Business Engineering and service business for water and wastewater treatment

(2) Purpose of the business combination

By acquiring AAS, we aim to expand sales and service network in the market in the United States as well as to establish strong business foundation in North America.

(3) Date of the business combination

Beginning of January 15, 2016

(4) Legal form of the business combination

Acquisition through reverse triangular merger under the U.S. business reorganization law

(5) Company name after business combination

Aqua-Aerobic Systems, Inc.

(6) Ratio of voting rights to be acquired

100%

(7) Basis for determining the acquirer

MUSA, a consolidated subsidiary of Metawater Co., Ltd, acquired all shares of AAS for cash consideration.

2. Purchase cost of the acquiree

USD 87 million (estimate)

3. Amount of goodwill arising from the acquisition, as well as its cause, amortization method and amortization period

To be determined.

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