



METAWATER Co., Ltd.

For Immediate Release

October 26, 2016

CONSOLIDATED RESULTS FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2016 (Unaudited)

[JP GAAP]

Company name	METAWATER Co., Ltd.
Stock exchanges on which the shares are listed	First Section of Tokyo Stock Exchange
Securities code	9551
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Filing date of quarterly securities report	November 14, 2016
Payment date of cash dividends	December 2, 2016
Supplementary information materials on quarterly results	Available
Quarterly results briefing	Held for institutional investors and analysts

(Amounts are rounded down to the nearest million yen)

1. Highlight of consolidated results for the six months ended September 30, 2016

(1) Consolidated operating results (year-to-date)

(Percentages are year-to-year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended September 30, 2016	29,252	36.3	(4,000)	—	(4,383)	—	(2,548)	—
Six months ended September 30, 2015	21,469	(7.2)	(5,662)	—	(5,627)	—	(3,860)	—

Note: Comprehensive income: Six months ended September 30, 2016 (3,416) million yen — %
Six months ended September 30, 2015 (3,667) million yen — %

	Net income per share - Basic -	Net income per share - Diluted -
	Yen	Yen
Six months ended September 30, 2016	(98.31)	—
Six months ended September 30, 2015	(148.91)	—

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity to total assets
	Million yen	Million yen	%
As of September 30, 2016	94,254	43,991	46.5
As of March 31, 2016	120,865	48,161	39.8

Note: Shareholders' equity: As of September 30, 2016 43,874 million yen
As of March 31, 2016 48,053 million yen

2. Dividends

Period	Dividends per share				
	1Q	2Q	3Q	4Q	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2016	—	29.00	—	29.00	58.00
Fiscal year ending March 31, 2017	—	29.00			
Fiscal year ending March 31, 2017 (Forecast)			—	29.00	58.00

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

3. Forecast for consolidated operating results for the fiscal year ending March 31, 2017

(Percentages are year-to-year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share - Basic -
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Fiscal year ending March 31, 2017	112,000	8.6	6,200	14.8	6,100	18.6	4,000	44.0	154.30

Note: Revision of forecast for operating results from the latest announcement: No

Notes:

- (1) Changes in significant subsidiaries during the six months ended September 30, 2016 (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, 2016 and 25,923,500 shares as of September 30, 2016.
 - (b) Number of treasury stock at the end of the period: Nil shares as of March 31, 2016 and 44 shares as of September 30, 2016.
 - (c) Average number of shares issued and outstanding for the period: 25,923,500 shares for the six months ended September 30, 2015 and 25,923,478 shares for the six months ended September 30, 2016.

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

This report is not subject to the quarterly review procedures under the "Financial Instruments and Exchange Act" of Japan. At the time of disclosure of this report, the procedures for review on the quarterly consolidated financial statements, pursuant to the "Financial Instruments and Exchange Act" of Japan, have not yet 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.

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1. Qualitative Information Regarding Consolidated Results for the Six Months Ended September 30, 2016

(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 September 30, 2016.

During the six months ended September 30, 2016, business conditions of the Japanese economy have recovered moderately. This is reflected in an improving labor market and increases in salary levels brought about as a result of the implementation of the economic and monetary policy set out by the Government, although some signs of economic recovery remain weak. In terms of the world economy, despite economic slowdown in emerging countries such as China and deteriorating conditions in the Middle East, moderate economic recovery has been achieved as a whole, mainly in the United States.

The domestic business environment in which the Group operates has continued to face challenges including a downward trend in the level of public spending, a sharp increase in labor costs arising from shortage of human resources, and some delays in civil engineering projects and construction work.

Consequently, in an effort to achieve the “Midterm business plan (from the fiscal year ended March 31, 2016 to fiscal year ending 2018)” developed on May 29, 2015, the Group has sought to strengthen the business foundations by actively investing operating resources and in that respect, Aqua-Aerobic Systems, Inc., became a wholly owned subsidiary of the Group. For this fiscal year, the Group will continue to focus on reinforcing our core businesses: domestic EPC (Note 1) and O&M (Note 2) and expanding our growing businesses: PPP (Note 3) and overseas businesses, aiming to be a “company acts in advance of changes and continues to grow”.

For the operating results of the Group for the six months ended September 30, 2016, net sales was ¥29,252 million (36.3% increase year to year), operating loss was ¥4,000 million (¥5,662 million for the six months ended September 30, 2015), ordinary loss was ¥4,383 million (¥5,627 million for the six months ended September 30, 2015) and loss attributable to owners of parent was ¥2,548 million (¥3,860 million for the six months ended September 30, 2015).

From the six months ended September 30, 2016, the Group consolidates income statement of Aqua-Aerobic Systems, Inc., located in the United States, which became a subsidiary of the Group in January 2016, with its three subsidiaries.

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. Outstanding order was ¥56,299 million.

Operating results by segment are as follows:

(Plant Engineering Business)

For the Plant Engineering Business, net sales amounted to ¥20,549 million (55.6% increase year to year) due to consolidation of Aqua-Aerobic Systems, Inc. with its three subsidiaries along with a steady growth of domestic EPC business; and operating loss amounted to ¥2,408 million (¥3,867 million for the six months ended September 30, 2015) due to an increase in net sales. Outstanding order was ¥29,129 million.

(Service Solutions Business)

For the Service Solutions Business, net sales amounted to ¥8,703 million (5.4% increase year to year) due to a steady growth of domestic O&M and PPP businesses; and operating loss amounted to

¥1,592 million (¥1,795 million for the six months ended September 30, 2015) due to an increase in net sales. Outstanding order was ¥27,170 million.

Note:

1. EPC: Engineering, Procurement and Construction
2. O&M: Operation and Maintenance
3. PPP (Public-Private Partnership): the means for the private sector to participate in providing services to the public

(2) Explanation of Financial Position

Total assets as of September 30, 2016 decreased by ¥26,611 million compared to March 31, 2016 to ¥94,254 million.

Current assets decreased by ¥25,003 million compared to March 31, 2016 to ¥77,801 million due to a decrease in notes and accounts receivable - trade, offsetting with an increase in cash and deposits.

Non-current assets decreased by ¥1,608 million compared to March 31, 2016 to ¥16,452 million.

Current liabilities decreased by ¥21,589 million compared to March 31, 2016 to ¥29,270 million due to a decrease in accounts payable - trade, offsetting with an increase in advances received.

Non-current liabilities decreased by ¥851 million compared to March 31, 2016 to ¥20,991 million due to a decrease in PFI and other project finance loans.

Total net assets decreased by ¥4,170 million compared to March 31, 2016 to ¥43,991 million due to recognition of loss attributable to owners of parent and payment of dividends.

The balance of cash and cash equivalents (hereinafter the “funds”) as of September 30, 2016 increased by ¥3,890 million compared to March 31, 2016 to ¥23,887 million. An analysis of the cash flows for the six months ended September 30, 2016 and related commentary thereon is presented below:

(Cash flows from operating activities)

The increase in funds generated by operating activities was ¥6,635 million: ¥35,650 million inflow from a decrease in accounts receivable - trade, offsetting with ¥4,383 million loss before income taxes, ¥1,893 million outflow from income taxes paid, and ¥24,832 million outflow from a decrease in accounts payable - trade.

(Cash flows from investing activities)

The decrease in funds used for investing activities was ¥1,095 million: ¥789 million outflow arising from the acquisition of a newly consolidated subsidiary, ¥219 million outflow from purchases of property, plant and equipment, ¥183 million outflow from purchases of intangible assets and others.

(Cash flows from financing activities)

The decrease in funds used for financing activities was ¥1,340 million: ¥751 million outflow from payment of dividends, ¥411 million outflow from repayments of PFI and other project finance loans and others.

(3) Explanation of Consolidated Business Forecast

There is no change in the forecast for the fiscal year ending March 31, 2017 announced on April 26, 2016.

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 six months ended September 30, 2016 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)

The Company and its domestic consolidated subsidiaries have applied “Practical Solution on a change in depreciation method due to Tax Reform 2016” (Accounting Standards Board of Japan (“ASBJ”) Practical Issues Task Force (“PITF”) No. 32, June 17, 2016)” from the three months ended June 30, 2016 and changed the depreciation method for Facilities attached to buildings and Structures acquired after April 1, 2016 to the straight-line method from the declining-balance method.

For the six months ended September 30, 2016, it does not have material impact on the quarterly consolidated financial statements.

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

	(Millions of yen)	
	As of March 31, 2016	As of September 30, 2016
Assets		
Current assets		
Cash and deposits	20,922	24,765
Notes and accounts receivable - trade	70,837	34,938
Work in process	3,706	9,906
Supplies	2,856	3,433
Other current assets	4,480	4,757
Total current assets	102,804	77,801
Non-current assets		
Property, plant and equipment	2,628	2,492
Intangible assets		
Goodwill	8,302	6,848
Other	1,881	1,613
Total intangible assets	10,183	8,461
Investments and other assets	5,248	5,498
Total non-current assets	18,060	16,452
Total assets	120,865	94,254

(1) Quarterly Consolidated Balance Sheets (continued)

(Millions of yen)

	As of March 31, 2016	As of September 30, 2016
Liabilities		
Current liabilities		
Accounts payable - trade	32,442	7,835
Electronically recorded obligations	—	954
Short-term loans payable	335	256
Current portion of PFI and other project finance loans	819	819
Income taxes payable	1,990	61
Advances received	5,812	13,458
Provision for warranties for completed construction	858	694
Provision for loss on construction contracts	97	137
Other current liabilities	8,503	5,052
Total current liabilities	50,860	29,270
Non-current liabilities		
Long-term loans payable	2,535	2,328
PFI and other project finance loans	13,417	12,796
Liability for retirement benefit	5,890	5,866
Total non-current liabilities	21,843	20,991
Total liabilities	72,703	50,262
Net assets		
Shareholders' equity		
Capital stock	11,946	11,946
Capital surplus	15,080	15,080
Retained earnings	24,548	21,247
Treasury stock	—	(0)
Total shareholders' equity	51,575	48,275
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	23	21
Foreign currency translation adjustment	463	(668)
Remeasurements of defined benefit plans	(4,008)	(3,753)
Total accumulated other comprehensive income	(3,521)	(4,400)
Non-controlling interest	108	117
Total net assets	48,161	43,991
Total liabilities and net assets	120,865	94,254

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

Quarterly Consolidated Statement of Income

(Millions of yen)

	Six months ended September 30, 2015	Six months ended September 30, 2016
Net sales	21,469	29,252
Cost of sales	20,693	25,241
Gross profit	775	4,011
Selling, general and administrative expenses	6,438	8,012
Operating loss	(5,662)	(4,000)
Non-operating income:		
Interest income	128	117
Dividends income	32	37
Foreign exchange gain	26	—
Miscellaneous income	8	14
Total non-operating income	195	169
Non-operating expenses:		
Interest expenses	87	128
Loss on disposal of non-current assets	71	17
Foreign exchange loss	—	406
Miscellaneous loss	0	0
Total non-operating expenses	160	552
Ordinary loss	(5,627)	(4,383)
Loss before income taxes	(5,627)	(4,383)
Income taxes	(1,778)	(1,846)
Net loss	(3,848)	(2,537)
Net profit attributable to non-controlling interests	11	11
Loss attributable to owners of parent	(3,860)	(2,548)

Quarterly Consolidated Statement of Comprehensive Income

(Millions of yen)

	Six months ended September 30, 2015	Six months ended September 30, 2016
Net loss	(3,848)	(2,537)
Other comprehensive income		
Valuation difference on available-for-sale securities	(5)	(2)
Foreign currency translation adjustment	13	(1,132)
Remeasurements of defined benefit plans	172	255
Total other comprehensive income (loss)	181	(879)
Comprehensive loss	(3,667)	(3,416)
(Details)		
Comprehensive loss attributable to owners of parent	(3,679)	(3,427)
Comprehensive income attributable to non-controlling interests	11	11

(3) Quarterly Consolidated Statement of Cash Flows

	(Millions of yen)	
	Six months ended September 30, 2015	Six months ended September 30, 2016
Cash flows from operating activities		
Loss before income taxes	(5,627)	(4,383)
Depreciation	505	512
Amortization of goodwill	4	256
Increase/(decrease) in liabilities for retirement benefits	(106)	(66)
(Increase)/decrease in assets for retirement benefits	(6)	56
Increase/(decrease) in provision for warranties for completed construction	(212)	(111)
Increase/(decrease) in provision for loss on construction contracts	28	40
Interest income and dividends income	(160)	(154)
Interest expenses	87	128
Foreign exchange (gain)/loss	2	385
Loss on disposal of non-current assets	71	17
(Increase)/decrease in accounts receivable	36,154	35,650
(Increase)/decrease in inventory	(5,944)	(6,959)
Increase/(decrease) in notes and accounts payable-trade	(24,118)	(24,832)
Increase/(decrease) in advances received	10,105	7,693
Other cash flows from operating activities	(1,443)	273
Subtotal	9,341	8,506
Interest and dividends income received	160	154
Interest expenses paid	(87)	(131)
Income taxes paid	(2,889)	(1,893)
Cash flows from operating activities	6,524	6,635

(3) Quarterly Consolidated Statement of Cash Flows (continued)

(Millions of yen)

	Six months ended September 30, 2015	Six months ended September 30, 2016
Cash flows from investing activities		
Net (increase)/decrease in time deposits	3	47
Purchase of property, plant and equipment	(446)	(219)
Purchase of intangible assets	(199)	(183)
Purchase of investment securities	(87)	(10)
Sale of investment securities	—	5
Acquisition of newly consolidated subsidiary	—	(789)
Payments of loans receivable	(15)	(17)
Collection of loans receivable	16	17
Other cash flows from investing activities	(1)	54
Cash flows from investing activities	(729)	(1,095)
Cash flows from financing activities		
Repayments of short-term loans payable	—	(175)
Proceeds from PFI and other project finance loans	375	—
Repayments of PFI and other project finance loans	(403)	(411)
Purchase of treasury stock	—	(0)
Cash dividends paid	(751)	(751)
Cash dividends paid to non-controlling interests	(1)	(1)
Cash flows from financing activities	(781)	(1,340)
Effect of exchange rate change on cash and cash equivalents	11	(310)
Net increase/(decrease) in cash and cash equivalents	5,025	3,890
Cash and cash equivalents at April 1	29,605	19,997
Cash and cash equivalents at September 30	34,630	23,887

(4) 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

Six months ended September 30, 2015

(Millions of yen)

	Reportable segments			Adjustments	Consolidated
	Plant Engineering Business	Service Solutions Business	Total		
Net Sales					
Sales to third parties	13,209	8,259	21,469	—	21,469
Inter-segment transactions and transfers	—	—	—	—	—
Net sales	13,209	8,259	21,469	—	21,469
Segment loss	(3,867)	(1,795)	(5,662)	—	(5,662)

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.

Six months ended September 30, 2016

(Millions of yen)

	Reportable segments			Adjustments	Consolidated
	Plant Engineering Business	Service Solutions Business	Total		
Net Sales					
Sales to third parties	20,549	8,703	29,252	—	29,252
Inter-segment transactions and transfers	—	—	—	—	—
Net sales	20,549	8,703	29,252	—	29,252
Segment loss	(2,408)	(1,592)	(4,000)	—	(4,000)

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.

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