



METAWATER Co., Ltd.

For Immediate Release

October 30, 2017

CONSOLIDATED RESULTS FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2017 (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
URL	http://www.metawater.co.jp/
Representative	Yasushi Nakamura
Contact person	President and Representative Director Masayuki Nakagawa Executive Officer Executive General Manager of Financial Planning Office (TEL.:+81-3-6853-7317)
Filing date of quarterly securities report	November 14, 2017
Payment date of cash dividends	December 4, 2017
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, 2017

(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, 2017	24,517	(16.2)	(5,123)	—	(5,121)	—	(3,583)	—
Six months ended September 30, 2016	29,252	36.3	(4,004)	—	(4,387)	—	(2,551)	—

Note: Comprehensive income:

Six months ended September 30, 2017

(3,799) million yen — %

Six months ended September 30, 2016

(3,419) million yen — %

	Net income per share - Basic -	Net income per share - Diluted -
	Yen	Yen
Six months ended September 30, 2017	(138.23)	—
Six months ended September 30, 2016	(98.43)	—

Note: At March 31, 2017, the closing adjustments were recorded to finalize the acquisition of the subsidiary which had been provisionally accounted for until then. The closing adjustments are reflected in the comparative information for the six months ended September 30, 2016.

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity to total assets
As of September 30, 2017	Million yen 100,105	Million yen 47,707	% 47.5
As of March 31, 2017	120,961	52,260	43.1

Note: Shareholders' equity:
 As of September 30, 2017 47,584 million yen
 As of March 31, 2017 52,142 million yen

2. Dividends

Period	Dividends per share				
	1Q	2Q	3Q	4Q	Annual
Fiscal year ended March 31, 2017	Yen —	Yen 29.00	Yen —	Yen 29.00	Yen 58.00
Fiscal year ending March 31, 2018	—	29.00			
Fiscal year ending March 31, 2018 (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, 2018

(Percentages are year-to-year changes)

	Net sales	Operating income	Ordinary income	Profit attributable to owners of parent	Net income per share - Basic -				
Fiscal year ending March 31, 2018	Million yen 115,000	% 3.0	Million yen 6,500	% 2.7	Million yen 6,400	% 2.4	Million yen 4,200	% (11.4)	Yen 162.00

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, 2017 (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: No
 - (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, 2017 and 25,923,500 shares as of September 30, 2017.
 - (b) Number of treasury stock at the end of the period: 44 shares as of March 31, 2017 and 44 shares as of September 30, 2017.
 - (c) Average number of shares issued and outstanding for the period: 25,923,478 shares for the six months ended September 30, 2016 and 25,923,456 shares for the six months ended September 30, 2017.

This quarterly report is not subject to the quarterly review by the external auditor.

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, 2017

(1) Explanation of Operating Results

During the six months ended September 30, 2017, 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. In terms of the world economy, despite concern about impact of political climate in Europe and uncertainty of US administration, moderate economic recovery has been achieved.

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, following the principles set out in the “Midterm business plan (from the fiscal year ended March 31, 2016 to fiscal year ending March 31, 2018)”, the Group continued to focus on reinforcing our core businesses: domestic EPC (Note 1) and O&M (Note 2) businesses and expanding our growing businesses: PPP (Note 3) and overseas businesses throughout the current fiscal year, 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, 2017, net sales was ¥24,517 million (16.2% decrease year to year), operating loss was ¥5,123 million (¥4,004 million for the six months ended September 30, 2016), ordinary loss was ¥5,121 million (¥4,387 million for the six months ended September 30, 2016) and loss attributable to owners of parent was ¥3,583 million (¥2,551 million for the six months ended September 30, 2016). Loss attributable to owners of parent increased as favorable movement of tax-effect accounting was recorded at the subsidiary in US for the six months ended September 30, 2016.

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. As a result of orders of large-scale projects, outstanding order was ¥64,209 million (14.0% increase year to year).

Operating results by segment are as follows:

(Plant Engineering Business)

For the Plant Engineering Business, net sales amounted to ¥16,668 million (18.9% decrease year to year) and operating loss amounted to ¥3,321 million (¥2,411 million for the six months ended September 30, 2016), due to sluggish movement in large sales of domestic EPC business, offsetting with a steady growth of revenues earned by Aqua-Aerobic Systems, Inc.. Outstanding order was ¥29,589 million (1.6% increase year to year).

(Service Solutions Business)

For the Service Solutions Business, net sales amounted to ¥7,849 million (9.8% decrease year to year) and operating loss amounted to ¥1,801 million (¥1,592 million for the six months ended September 30, 2016) due to sluggish movement in sales of PPP business. Outstanding order was ¥34,620 million (27.4% increase year to year).

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, 2017 decreased by ¥20,855 million compared to March 31, 2017 to ¥100,105 million.

Current assets decreased by ¥20,156 million compared to March 31, 2017 to ¥83,424 million due to a decrease in notes and accounts receivable - trade, offsetting with an increase in cash and deposits.

Non-current assets decreased by ¥698 million compared to March 31, 2017 to ¥16,681 million due to a decrease in goodwill and customer-related assets.

Current liabilities decreased by ¥15,667 million compared to March 31, 2017 to ¥32,862 million due to a decrease in accounts payable - trade, offsetting with an increase in advances received.

Non-current liabilities decreased by ¥634 million compared to March 31, 2017 to ¥19,536 million due to a decrease in PFI and other project finance loans.

Total net assets decreased by ¥4,553 million compared to March 31, 2017 to ¥47,707 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, 2017 increased by ¥9,502 million compared to March 31, 2017 to ¥32,854 million. An analysis of the cash flows for the six months ended September 30, 2017 and related commentary thereon is presented below:

(Cash flows from operating activities)

The increase in funds generated by operating activities was ¥10,903 million (¥4,267 million increase year to year): ¥39,250 million decrease in notes and accounts receivable - trade, offsetting with ¥5,121 million loss before income taxes, ¥2,171 million used for payment of income taxes, and ¥20,300 million decrease in notes and accounts payable - trade.

(Cash flows from investing activities)

The decrease in funds used for investing activities was ¥501 million (¥593 million increase year to year): ¥267 million used for purchase of property, plant and equipment, ¥145 million used for purchase of intangible assets.

(Cash flows from financing activities)

The decrease in funds used for financing activities was ¥862 million (¥478 million increase year to year): ¥751 million used for payment of dividends, ¥411 million used for repayments of PFI and other project finance loans, and others, offsetting with ¥448 million increase in short-term loans payable.

(3) Explanation of Consolidated Business Forecast

There is no change in the forecast for the fiscal year ending March 31, 2018 announced on April 26, 2017.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheets

	(Millions of yen)	
	As of March 31, 2017	As of September 30, 2017
Assets		
Current assets		
Cash and deposits	24,230	33,682
Notes and accounts receivable - trade	67,946	28,575
Work in process	3,119	11,075
Supplies	4,127	4,574
Other current assets	4,155	5,515
Total current assets	<u>103,580</u>	<u>83,424</u>
Non-current assets		
Property, plant and equipment	3,059	2,950
Intangible assets		
Goodwill	2,045	1,896
Customer-related assets	3,044	2,836
Other	3,069	2,726
Total intangible assets	<u>8,160</u>	<u>7,459</u>
Investments and other assets	6,160	6,271
Total non-current assets	<u>17,380</u>	<u>16,681</u>
Total assets	<u>120,961</u>	<u>100,105</u>

(1) Quarterly Consolidated Balance Sheets (continued)

(Millions of yen)

	As of March 31, 2017	As of September 30, 2017
Liabilities		
Current liabilities		
Accounts payable - trade	20,037	5,095
Electronically recorded obligations	7,637	3,430
Short-term loans payable	284	286
Current portion of PFI and other project finance loans	825	1,277
Income taxes payable	2,367	101
Advances received	8,672	16,034
Provision for warranties for completed construction	1,063	1,144
Provision for loss on construction contracts	167	131
Other current liabilities	7,474	5,361
Total current liabilities	<u>48,530</u>	<u>32,862</u>
Non-current liabilities		
Long-term loans payable	2,436	2,308
PFI and other project finance loans	12,382	11,967
Liability for retirement benefit	5,350	5,259
Total non-current liabilities	<u>20,170</u>	<u>19,536</u>
Total liabilities	<u>68,700</u>	<u>52,398</u>
Net assets		
Shareholders' equity		
Capital stock	11,946	11,946
Capital surplus	15,080	15,080
Retained earnings	27,787	23,452
Treasury stock	(0)	(0)
Total shareholders' equity	<u>54,814</u>	<u>50,479</u>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	32	35
Foreign currency translation adjustment	133	(331)
Remeasurements of defined benefit plans	(2,838)	(2,597)
Total accumulated other comprehensive income	<u>(2,671)</u>	<u>(2,894)</u>
Non-controlling interest	<u>117</u>	<u>122</u>
Total net assets	<u>52,260</u>	<u>47,707</u>
Total liabilities and net assets	<u>120,961</u>	<u>100,105</u>

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

Quarterly Consolidated Statement of Income

(Millions of yen)

	Six months ended September 30, 2016	Six months ended September 30, 2017
Net sales	29,252	24,517
Cost of sales	25,269	21,486
Gross profit	3,983	3,031
Selling, general and administrative expenses	7,987	8,154
Operating loss	(4,004)	(5,123)
Non-operating income		
Interest income	117	98
Dividends income	37	33
Foreign exchange gains	—	10
Miscellaneous income	14	10
Total non-operating income	169	152
Non-operating expenses		
Interest expenses	128	107
Loss on disposal of non-current assets	17	38
Foreign exchange losses	406	—
Miscellaneous loss	0	3
Total non-operating expenses	552	150
Ordinary loss	(4,387)	(5,121)
Loss before income taxes	(4,387)	(5,121)
Income taxes	(1,846)	(1,544)
Net loss	(2,540)	(3,576)
Profit attributable to non-controlling interests	11	6
Loss attributable to owners of parent	(2,551)	(3,583)

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

Quarterly Consolidated Statement of Comprehensive Income

	(Millions of yen)	
	Six months ended September 30, 2016	Six months ended September 30, 2017
Net loss	(2,540)	(3,576)
Other comprehensive income		
Valuation difference on available-for-sale securities	(2)	2
Foreign currency translation adjustment	(1,131)	(465)
Remeasurements of defined benefit plans	255	240
Total other comprehensive loss	<hr/> (879)	<hr/> (223)
Comprehensive loss	<hr/> (3,419)	<hr/> (3,799)
(Details)		
Comprehensive loss attributable to owners of parent	(3,431)	(3,806)
Comprehensive income attributable to non-controlling interests	11	6

(3) Quarterly Consolidated Statement of Cash Flows

	(Millions of yen)	
	Six months ended September 30, 2016	Six months ended September 30, 2017
Cash flows from operating activities		
Loss before income taxes	(4,387)	(5,121)
Depreciation	702	710
Amortization of goodwill	70	70
(Decrease)/increase in liability for retirement benefit	(66)	(44)
Decrease/(increase) in asset for retirement benefit	56	(106)
(Decrease)/increase in provision for warranties for completed construction	(111)	96
Increase/(decrease) in provision for loss on construction contracts	40	(35)
Interest income and dividends income	(154)	(131)
Interest expenses	128	107
Foreign exchange losses/(gains)	385	(19)
Loss on disposal of non-current assets	17	38
Decrease/(increase) in notes and accounts receivable-trade	35,650	39,250
(Increase)/decrease in inventory	(6,959)	(8,449)
(Decrease)/increase in notes and accounts payable-trade	(24,832)	(20,300)
Increase/(decrease) in advances received	7,693	7,385
Other cash flows from operating activities	273	(401)
Subtotal	<hr/> 8,506	<hr/> 13,050
Interest and dividends income received	154	131
Interest expenses paid	(131)	(107)
Income taxes paid	(1,893)	(2,171)
Cash flows from operating activities	<hr/> 6,635	<hr/> 10,903

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

	(Millions of yen)	
	Six months ended September 30, 2016	Six months ended September 30, 2017
Cash flows from investing activities		
Net decrease/(increase) in time deposits	47	50
Purchase of property, plant and equipment	(219)	(267)
Purchase of intangible assets	(183)	(145)
Purchase of investment securities	(10)	(12)
Proceeds from sales of investment securities	5	—
Acquisition of newly consolidated subsidiary	(789)	—
Payments of loans receivable	(17)	(1)
Collection of loans receivable	17	18
Other cash flows from investing activities	54	(144)
Cash flows from investing activities	<hr/> (1,095)	<hr/> (501)
Cash flows from financing activities		
Increase in short-term loans payable	—	448
Decrease in short-term loans payable	(175)	(145)
Repayments of PFI and other project finance loans	(411)	(411)
Purchase of treasury stock	(0)	—
Cash dividends paid	(751)	(751)
Cash dividends paid to non-controlling interests	(1)	(2)
Cash flows from financing activities	<hr/> (1,340)	<hr/> (862)
Effect of exchange rate change on cash and cash equivalents	(310)	(37)
Net increase/(decrease) in cash and cash equivalents	3,890	9,502
Cash and cash equivalents at April 1	<hr/> 19,997	<hr/> 23,352
Cash and cash equivalents at September 30	23,887	32,854

(4) Notes to Quarterly Consolidated Financial Statements

Notes on Going Concern Assumption

No items to report.

Notes on Significant Changes in Shareholders' Equity

No items to report.

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, 2017 after applying tax effect accounting, and multiplying such effective tax rate with income before income taxes for the quarter.

Segment Information

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	(2,411)	(1,592)	(4,004)	—	(4,004)

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, 2017

(Millions of yen)

	Reportable segments			Adjustments	Consolidated
	Plant Engineering Business	Service Solutions Business	Total		
Net Sales					
Sales to third parties	16,668	7,849	24,517	—	24,517
Inter-segment transactions and transfers	—	—	—	—	—
Net sales	16,668	7,849	24,517	—	24,517
Segment loss	(3,321)	(1,801)	(5,123)	—	(5,123)

Note:

1. 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.
2. As described in "Significant adjustments to the initial allocation of purchase price in the comparative information" in the section of "Business Combinations", significant adjustments to the initial allocation of purchase price are reflected in the segment information for the six months ended September 30, 2016.

Business Combinations

Significant adjustments to the initial allocation of purchase price in the comparative information

Acquisition of Aqua-Aerobic Systems, Inc. completed on January 15, 2016 had been provisionally accounted for during the six months ended September 30, 2016. The closing adjustments were recorded at March 31, 2017 to finalize the acquisition.

Accordingly, significant adjustments to the initial allocation of purchase price are reflected in the comparative information for the six months ended September 30, 2016.

Adjustments to the goodwill and significant adjustments to the initial allocation of purchase price are as follows:

Adjusted account	Adjustments to the goodwill
Goodwill (pre-adjustment)	¥8,302 million
Current assets	¥(298) million
Property, plant and equipment	¥(611) million
Intangible assets	¥(5,123) million
Total adjustment	¥(6,033) million
Goodwill (after-adjustment)	¥2,269 million

As a result of finalizing the acquisition, ¥8,302 million of the goodwill provisionally accounted for was reduced by ¥6,033 million to ¥2,269 million.

In the quarterly consolidated statement of income for the six months ended September 30, 2016, operating income, ordinary income and income before income taxes decreased by ¥3 million, respectively.

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