



METAWATER Co., Ltd.

For Immediate Release

October 31, 2018

CONSOLIDATED RESULTS FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2018 (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 13, 2018
Payment date of cash dividends	December 4, 2018
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, 2018

(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, 2018	29,534	20.5	(3,651)	—	(3,355)	—	(2,368)	—
Six months ended September 30, 2017	24,517	(16.2)	(5,123)	—	(5,121)	—	(3,583)	—

Note: Comprehensive income: Six months ended September 30, 2018 (2,760) million yen — %
Six months ended September 30, 2017 (3,799) million yen — %

	Net income per share - Basic -	Net income per share - Diluted -
	Yen	Yen
Six months ended September 30, 2018	(91.37)	—
Six months ended September 30, 2017	(138.23)	—

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity to total assets
	Million yen	Million yen	%
As of September 30, 2018	106,640	51,528	48.2
As of March 31, 2018	122,991	55,042	44.6

Note: Shareholders' equity: As of September 30, 2018 51,370 million yen
As of March 31, 2018 54,906 million yen

2. Dividends

Period	Dividends per share				
	1Q	2Q	3Q	4Q	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2018	—	29.00	—	29.00	58.00
Fiscal year ending March 31, 2019	—	31.00			
Fiscal year ending March 31, 2019 (Forecast)			—	31.00	62.00

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

3. Forecast for consolidated operating results for the fiscal year ending March 31, 2019

(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, 2019	120,000	8.2	7,200	6.7	7,100	9.8	4,800	22.1	185.20

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

Notes:

- (1) Changes in significant subsidiaries during the six months ended September 30, 2018 (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, 2018 and 25,923,500 shares as of September 30, 2018.
 - (b) Number of treasury stock at the end of the period: 91 shares as of March 31, 2018 and 123 shares as of September 30, 2018.
 - (c) Average number of shares issued and outstanding for the period: 25,923,456 shares for the six months ended September 30, 2017 and 25,923,398 shares for the six months ended September 30, 2018.

This quarterly report is not subject to the quarterly review performed by certified public accountants or accounting firm.

Appropriate Use of Forecasts and Other Matters

(Forward looking statements disclaimer)

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, 2018

(1) Explanation of Operating Results

During the six months ended September 30, 2018, 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 uncertainty about the future such as Chinese economic slowdown and concern about trade conflict between the US and China, economic situation generally remains steady.

Under such circumstances, in light of environment surrounding our business and development of the Group, the Group has changed the corporate philosophy and established the Midterm Business Plan 2020 (from the fiscal year ending March 31, 2019 to fiscal year ending March 31, 2021), as a good refresh of the 10th anniversary of the Group foundation. In order to achieve the Plan, the Group tries our best to implement the priority measures: i) strategic development investment, ii) business strategy (enhancement of foundation field and expansion of growth field) and iii) efforts of sustainable ESG.

For the operating results of the Group for the six months ended September 30, 2018, net sales was ¥29,534 million (20.5% increase year to year), operating loss was ¥3,651 million (¥5,123 million for the six months ended September 30, 2017), ordinary loss was ¥3,355 million (¥5,121 million for the six months ended September 30, 2017) and loss attributable to owners of parent was ¥2,368 million (¥3,583 million for the six months ended September 30, 2017). The outstanding order was ¥59,411 million (7.5% decrease year to year).

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.

The Group's business consists of two segments: Plant Engineering Business Segment including EPC (note 1) as foundation field and foreign business as growth field and Service Solutions Business Segment including O&M (note 2) as foundation field and PPP (note 3) as growth field.

Operating results by segment are as follows:

(Plant Engineering Business)

For the Plant Engineering Business, net sales amounted to ¥19,863 million (19.2% increase year to year) and operating loss amounted to ¥1,753 million (¥3,321 million for the six months ended September 30, 2017), due to a steady growth in EPC business, offsetting with sluggish movement in foreign business. Outstanding order was ¥30,946 million (4.6% increase year to year).

(Service Solutions Business)

For the Service Solutions Business, net sales amounted to ¥9,670 million (23.2% increase year to year) due to a steady growth in O&M and PPP businesses. By contrast, operating loss amounted to ¥1,897 million (¥1,801 million for the six months ended September 30, 2017) due to varied composition of projects. Outstanding order was ¥28,464 million (17.8% decrease 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, 2018 decreased by ¥16,351 million compared to March 31, 2018 to ¥106,640 million.

Current assets decreased by ¥15,736 million compared to March 31, 2018 to ¥89,664 million due to a decrease in notes and accounts receivable - trade, offsetting with an increase in cash and deposits.

Non-current assets decreased by ¥614 million compared to March 31, 2018 to ¥16,976 million due to a decrease in goodwill and customer-related assets.

Current liabilities decreased by ¥12,384 million compared to March 31, 2018 to ¥36,657 million due to a decrease in accounts payable - trade, offsetting with an increase in advances received.

Non-current liabilities decreased by ¥452 million compared to March 31, 2018 to ¥18,454 million due to a decrease in PFI and other project finance loans.

Total net assets decreased by ¥3,513 million compared to March 31, 2018 to ¥51,528 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, 2018 increased by ¥10,731 million compared to March 31, 2018 to ¥35,709 million. An analysis of the cash flows for the six months ended September 30, 2018 and related commentary thereon is presented below:

(Cash flows from operating activities)

The funds generated by operating activities was ¥12,525 million (¥1,622 million increase year to year): ¥38,009 million decrease in notes and accounts receivable - trade, offsetting with ¥3,355 million of loss before income taxes, ¥1,842 million used for payment of income taxes and ¥17,089 million decrease in notes and accounts payable - trade.

(Cash flows from investing activities)

The funds used for investing activities was ¥478 million (¥23 million decrease year to year): ¥362 million used for purchase of property, plant and equipment and ¥116 million used for purchase of intangible assets.

(Cash flows from financing activities)

The funds used for financing activities was ¥1,312 million (¥450 million increase year to year): ¥751 million used for payment of dividends and ¥415 million used for repayments of PFI and other project finance loans.

(3) Explanation of Consolidated Business Forecast

Taking into consideration the performances and the business environment for the six months ended September 30, 2018, the Group has revised the forecast for the fiscal year ending March 31, 2019 announced on April 25, 2018, as follows.

Consolidated Business Forecast for the fiscal year ending March 31, 2019

	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
Previous forecast (A)	120,000	7,000	6,900	4,700	181.30
Revised forecast (B)	120,000	7,200	7,100	4,800	185.20
Change (B - A)	0	200	200	100	
Change %	0%	2.9%	2.9%	2.1%	
(For reference) Actual result for the fiscal year ended March 31, 2018	110,895	6,745	6,465	3,931	151.65

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheets

	(Millions of yen)	
	As of March 31, 2018	As of September 30, 2018
Assets		
Current assets		
Cash and deposits	25,805	36,502
Notes and accounts receivable - trade	72,164	34,076
Work in process	2,623	11,920
Supplies	3,299	3,445
Other current assets	1,508	3,719
Total current assets	105,401	89,664
Non-current assets		
Property, plant and equipment	2,982	2,972
Intangible assets		
Goodwill	1,842	1,733
Customer-related assets	2,769	2,619
Other	2,447	2,135
Total intangible assets	7,060	6,488
Investments and other assets	7,548	7,514
Total non-current assets	17,590	16,976
Total assets	122,991	106,640

(1) Quarterly Consolidated Balance Sheets (continued)

(Millions of yen)

	As of March 31, 2018	As of September 30, 2018
Liabilities		
Current liabilities		
Accounts payable - trade	18,372	6,766
Electronically recorded obligations	8,155	3,824
Short-term loans payable	269	287
Current portion of PFI and other project finance loans	833	838
Income taxes payable	2,173	176
Advances received	10,719	17,432
Provision for warranties for completed construction	857	726
Provision for loss on construction contracts	204	185
Other current liabilities	7,456	6,420
Total current liabilities	49,042	36,657
Non-current liabilities		
Long-term loans payable	2,050	2,027
PFI and other project finance loans	11,549	11,129
Liability for retirement benefit	5,294	5,193
Other non-current liabilities	11	103
Total non-current liabilities	18,906	18,454
Total liabilities	67,949	55,111
Net assets		
Shareholders' equity		
Capital stock	11,946	11,946
Capital surplus	15,080	15,080
Retained earnings	30,214	27,094
Treasury stock	(0)	(0)
Total shareholders' equity	57,241	54,121
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	54	64
Foreign currency translation adjustment	84	(569)
Remeasurements of defined benefit plans	(2,474)	(2,246)
Total accumulated other comprehensive income	(2,335)	(2,751)
Non-controlling interest	136	158
Total net assets	55,042	51,528
Total liabilities and net assets	122,991	106,640

(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, 2017	Six months ended September 30, 2018
Net sales	24,517	29,534
Cost of sales	21,486	25,287
Gross profit	3,031	4,246
Selling, general and administrative expenses	8,154	7,897
Operating loss	(5,123)	(3,651)
Non-operating income		
Interest income	98	104
Dividends income	33	53
Foreign exchange gains	10	249
Miscellaneous income	10	0
Total non-operating income	152	408
Non-operating expenses		
Interest expenses	107	108
Loss on disposal of non-current assets	38	4
Miscellaneous loss	3	0
Total non-operating expenses	150	112
Ordinary loss	(5,121)	(3,355)
Loss before income taxes	(5,121)	(3,355)
Income taxes	(1,544)	(1,010)
Net loss	(3,576)	(2,344)
Profit attributable to non-controlling interests	6	23
Loss attributable to owners of parent	(3,583)	(2,368)

(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, 2017	Six months ended September 30, 2018
Net loss	(3,576)	(2,344)
Other comprehensive income		
Valuation difference on available-for-sale securities	2	10
Foreign currency translation adjustment	(465)	(653)
Remeasurements of defined benefit plans	240	227
Total other comprehensive loss	(223)	(415)
Comprehensive loss	(3,799)	(2,760)
(Details)		
Comprehensive loss attributable to owners of parent	(3,806)	(2,784)
Comprehensive income attributable to non-controlling interests	6	23

(3) Quarterly Consolidated Statement of Cash Flows

(Millions of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Cash flows from operating activities		
Loss before income taxes	(5,121)	(3,355)
Depreciation	710	670
Amortization of goodwill	70	68
(Decrease)/increase in liability for retirement benefit	(44)	(95)
(Increase)/decrease in asset for retirement benefit	(106)	(72)
Increase/(decrease) in provision for warranties for completed construction	96	(121)
(Decrease)/increase in provision for loss on construction contracts	(35)	(19)
Interest income and dividends income	(131)	(157)
Interest expenses	107	108
Foreign exchange (gains)/losses	(19)	(271)
Loss on disposal of non-current assets	38	4
Decrease/(increase) in notes and accounts receivable-trade	39,250	38,009
(Increase)/decrease in inventory	(8,449)	(9,468)
(Decrease)/increase in notes and accounts payable-trade	(20,300)	(17,089)
Increase/(decrease) in advances received	7,385	6,720
Other cash flows from operating activities	(401)	(609)
Subtotal	13,050	14,317
Interest and dividends income received	131	157
Interest expenses paid	(107)	(106)
Income taxes paid	(2,171)	(1,842)
Cash flows from operating activities	10,903	12,525

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

(Millions of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Cash flows from investing activities		
Net decrease/(increase) in time deposits	50	34
Purchase of property, plant and equipment	(267)	(362)
Purchase of intangible assets	(145)	(116)
Purchase of investment securities	(12)	(55)
Payments of loans receivable	(1)	—
Collection of loans receivable	18	18
Other cash flows from investing activities	(144)	1
Cash flows from investing activities	(501)	(478)
Cash flows from financing activities		
Proceeds from short-term loan payable	448	—
Repayments of short-term loans payable	(145)	(143)
Repayments of PFI and other project finance loans	(411)	(415)
Purchase of treasury stock	—	(0)
Cash dividends paid	(751)	(751)
Cash dividends paid to non-controlling interests	(2)	(1)
Cash flows from financing activities	(862)	(1,312)
Effect of exchange rate change on cash and cash equivalents	(37)	(2)
Net increase/(decrease) in cash and cash equivalents	9,502	10,731
Cash and cash equivalents at April 1	23,352	24,977
Cash and cash equivalents at September 30	32,854	35,709

(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, 2018 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, 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: 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, 2018

(Millions of yen)

	Reportable segments			Adjustments	Consolidated
	Plant Engineering Business	Service Solutions Business	Total		
Net Sales					
Sales to third parties	19,863	9,670	29,534	—	29,534
Inter-segment transactions and transfers	—	—	—	—	—
Net sales	19,863	9,670	29,534	—	29,534
Segment loss	(1,753)	(1,897)	(3,651)	—	(3,651)

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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