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METAWATER Co., Ltd.

For Immediate Release January 27, 2022

CONSOLIDATED RESULTS FOR THE NINE MONTHS ENDED DECEMBER 31, 2021 (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	February 10, 2022
Payment date of cash dividends	—
Supplementary information materials on quarterly results	Available
Quarterly results briefing	Will not be held

(Amounts are rounded down to the nearest million yen)

1. Highlight of consolidated results for the nine months ended December 31, 2021

(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	%
Nine months ended December 31, 2021	66,597	13.8	(2,640)	—	(2,380)	—	(1,824)	—
Nine months ended December 31, 2020	58,497	3.5	(1,086)	—	(1,235)	—	(1,077)	—

Note: Comprehensive income: Nine months ended December 31, 2021 (814) million yen — %
Nine months ended December 31, 2020 (1,830) million yen — %

	Net income per share - Basic -	Net income per share - Diluted -
	Yen	Yen
Nine months ended December 31, 2021	(41.89)	—
Nine months ended December 31, 2020	(24.81)	—

Note: The Company effectuated a 2-for-1 ordinary share stock split on October 1, 2020. Net income per share above is calculated assuming that the stock split became effective as of April 1, 2020.

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity to total assets
	Million yen	Million yen	%
As of December 31, 2021	111,291	51,834	46.0
As of March 31, 2021	131,194	53,432	40.6

Note: Shareholders' equity: As of December 31, 2021 51,212 million yen
As of March 31, 2021 53,266 million yen

2. Dividends

Period	Dividends per share				
	1Q	2Q	3Q	4Q	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2021	—	40.00	—	20.00	—
Fiscal year ending March 31, 2022	—	20.00	—		
Fiscal year ending March 31, 2022 (Forecast)				20.00	40.00

Notes:

1. Revision of forecast for dividends from the latest announcement: No
2. The Company effectuated a 2-for-1 ordinary share stock split on October 1, 2020. Dividends per share for the second and fourth quarters of the fiscal year ended March 31, 2021 are shown as the amount before and the after the stock split, respectively. The annual dividends per share for the fiscal year ended March 31, 2021 is shown as "—".

3. Forecast for consolidated operating results for the fiscal year ending March 31, 2022

(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, 2022	135,000	1.2	7,500	(31.0)	7,400	(33.1)	5,400	(17.5)	123.96

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

Notes:

(1) Changes in significant subsidiaries during the nine months ended December 31, 2021 (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): 51,758,500 shares as of March 31, 2021 and 47,758,500 shares as of December 31, 2021.
  (b) Number of treasury stock at the end of the period: 8,223,432 shares as of March 31, 2021 and 4,196,064 shares as of December 31, 2021.
  (c) Average number of shares issued and outstanding for the period: 43,446,587 shares for the nine months ended December 31, 2020 and 43,551,406 shares for the nine months ended December 31, 2021.

  Note: The Company effectuated a 2-for-1 ordinary share stock split on October 1, 2020. Number of shares issued and outstanding at the end of the period, number of treasury stock at the end of the period, and average number of shares issued and outstanding for the period above are calculated assuming that the stock split became effective as of April 1, 2020.

* 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

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 Nine Months Ended December 31, 2021

(1) Explanation of Operating Results

Japanese economy during the nine months ended December 31, 2021 remained severe due to the effect of COVID-19 outbreak. The global economy was also severe due to the effect of global pandemic of COVID-19, while there were signs of recovery. The positive result of infection control and the improved overseas economies are expected to contribute to the recovery trend.

Under such circumstances, the Group established the Midterm Business Plan 2023 (through the fiscal year ending March 31, 2024), and is making company-wide efforts to achieve the plan by focusing on the following priority measures: i) enhancement of foundation field and expansion of growth field, ii) increase in R&D investment and iii) efforts of sustainable ESG.

The operating results of the Group for the nine months ended December 31, 2021 are as the table below.

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 for the first nine months tend to be low, and this fiscal year is no exception.

	Nine months ended December 31, 2020 (Million yen)	Nine months ended December 31, 2021 (Million yen)	Increase/ (decrease) (Million yen)	Increase/ (decrease) (%)
Net sales	58,497	66,597	8,099	13.8
Operating income	(1,086)	(2,640)	(1,554)	—
Ordinary income	(1,235)	(2,380)	(1,145)	—
Profit attributable to owners of parent	(1,077)	(1,824)	(746)	—
Order received	113,084	122,313	9,228	8.2
Order Backlog	193,226	225,023	31,796	16.5

Note:

Effective from the first quarter of the fiscal year ending March 31, 2022, the Group adopted the Accounting Standard for Revenue Recognition. Also, the income statements of Wigen Companies Inc. and Rood Wit Blauw Water B.V. have been consolidated to the Group's consolidated financial statements from the second and fourth quarters, respectively, of the fiscal year ended March 31, 2021.

In the third quarter of the fiscal year ended March 31, 2021, the unrecognized actuarial gains/losses (credit) were amortized in lump-sum due to the sale of shares contributed to the retirement benefit trust. Its impact on the operating income for the nine months ended December 31, 2020 was 1,779 million yen.

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:

Notes:

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

(Plant Engineering Business)

The operating results of the Plant Engineering Business are as the table below.

In the EPC business, both net sales and operating income decreased year on year. In the international business, both net sales and operating income increased year on year, mainly as a result of consolidation of Wigen Companies Inc. and Rood Wit Blauw Water B.V..

	Nine months ended December 31, 2020 (Million yen)	Nine months ended December 31, 2021 (Million yen)	Increase/ (decrease) (Million yen)	Increase/ (decrease) (%)
Net sales	39,828	39,820	(8)	(0.0)
Operating income	198	(2,428)	(2,627)	―
Operating income (note)	(811)	(2,428)	(1,617)	―
Order received	63,508	65,493	1,985	3.1
Order Backlog	102,222	124,699	22,477	22.0

Note:

The operating income excluding the impact of the lump-sum amortization of unrecognized actuarial gains/losses (credit) due to the sale of shares contributed to the retirement benefit trust in the third quarter of the fiscal year ended March 31, 2021 is shown as a reference.

(Service Solutions Business)

The operating results of the Service Solutions Business are as the table below.

In the O&M business, both net sales and operating income increased year on year. In the PPP business as well, both net sales and operating income increased year on year.

	Nine months ended December 31, 2020 (Million yen)	Nine months ended December 31, 2021 (Million yen)	Increase/ (decrease) (Million yen)	Increase/ (decrease) (%)
Net sales	18,669	26,777	8,107	43.4
Operating income	(1,285)	(212)	1,073	―
Operating income (note)	(2,054)	(212)	1,842	―
Order received	49,576	56,819	7,242	14.6
Order Backlog	91,004	100,323	9,318	10.2

Note:

The operating income excluding the impact of the lump-sum amortization of unrecognized actuarial gains/losses (credit) due to the sale of shares contributed to the retirement benefit trust in the third quarter of the fiscal year ended March 31, 2021 is shown as a reference.

(2) Explanation of Financial Position

Total assets as of December 31, 2021 decreased by ¥ 19,902 million compared to March 31, 2021 to ¥ 111,291 million.

Current assets decreased by ¥ 20,544 million compared to March 31, 2021 to ¥ 88,705 million due to a decrease in accounts receivable - trade, offsetting an increase in cash and deposits as well as work in process.

Non-current assets increased by ¥ 641 million compared to March 31, 2021 to ¥ 22,585 million due to an increase in software in process account.

Current liabilities decreased by ¥17,903 million compared to March 31, 2021 to ¥44,687 million due to a decrease in accounts payable - trade, offsetting an increase in contract liabilities.

Non-current liabilities decreased by ¥401 million compared to March 31, 2021 to ¥14,768 million due to a decrease in PFI and other project finance loans, offsetting an increase in liability for

retirement benefit.

Total net assets decreased by ¥ 1,597 million compared to March 31, 2021 to ¥ 51,834 million due to the recognition of loss attributable to owners of parent and payment of dividends.

(3) Explanation of Consolidated Business Forecast

There is no change in the forecast for the fiscal year ending March 31, 2022 announced on October 27, 2021.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2021	As of December 31, 2021
Assets		
Current assets		
Cash and deposits	18,777	21,076
Notes and accounts receivable - trade	78,398	—
Notes and accounts receivable - trade, and contract assets	—	44,129
Work in process	3,209	11,000
Supplies	5,750	6,953
Other current assets	3,114	5,544
Total current assets	109,250	88,705
Non-current assets		
Property, plant and equipment	4,302	4,320
Intangible assets		
Goodwill	2,421	2,412
Customer-related assets	4,125	4,209
Other	1,834	2,545
Total intangible assets	8,380	9,166
Investments and other assets	9,260	9,098
Total non-current assets	21,944	22,585
Total assets	131,194	111,291

(1) Quarterly Consolidated Balance Sheets (continued)

(Millions of yen)

	As of March 31, 2021	As of December 31, 2021
Liabilities		
Current liabilities		
Accounts payable - trade	20,585	10,029
Electronically recorded obligations	10,903	7,878
Short-term loans payable	540	698
Current portion of PFI and other project finance loans	863	872
Income taxes payable	3,959	115
Advances received	12,664	—
Contract liabilities	—	15,601
Provision for warranties for completed construction	1,588	1,519
Provision for loss on construction contracts	871	715
Other current liabilities	10,613	7,257
Total current liabilities	62,590	44,687
Non-current liabilities		
Long-term loans payable	1,287	1,006
PFI and other project finance loans	8,986	8,153
Liability for retirement benefit	3,819	4,028
Other non-current liabilities	1,077	1,579
Total non-current liabilities	15,170	14,768
Total liabilities	77,761	59,456
Net assets		
Shareholders' equity		
Capital stock	11,946	11,946
Capital surplus	14,999	9,406
Retained earnings	42,725	38,310
Treasury stock	(13,988)	(7,137)
Total shareholders’ equity	55,683	52,526
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	70	68
Foreign currency translation adjustment	(1,160)	(295)
Remeasurements of defined benefit plans	(1,327)	(1,086)
Total accumulated other comprehensive income	(2,417)	(1,313)
Non-controlling interest	166	622
Total net assets	53,432	51,834
Total liabilities and net assets	131,194	111,291

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

Quarterly Consolidated Statement of Income

(Millions of yen)

	Nine months ended December 31, 2020	Nine months ended December 31, 2021
Net sales	58,497	66,597
Cost of sales	47,417	55,233
Gross profit	11,080	11,364
Selling, general and administrative expenses	12,166	14,005
Operating loss	(1,086)	(2,640)
Non-operating income		
Interest income	117	107
Dividends income	39	59
Gains on step acquisition	82	—
Foreign exchange gain	—	219
Miscellaneous income	31	52
Total non-operating income	270	439
Non-operating expenses		
Interest expenses	115	119
Loss on disposal of non-current assets	44	54
Foreign exchange loss	244	—
Miscellaneous loss	15	6
Total non-operating expenses	420	179
Ordinary loss	(1,235)	(2,380)
Loss before income taxes	(1,235)	(2,380)
Income taxes	(160)	(462)
Net loss	(1,075)	(1,918)
Profit or loss attributable to non-controlling interests	2	(94)
Loss attributable to owners of parent	(1,077)	(1,824)

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

Quarterly Consolidated Statement of Comprehensive Income

(Millions of yen)

	Nine months ended December 31, 2020	Nine months ended December 31, 2021
Net loss	(1,075)	(1,918)
Other comprehensive income		
Valuation difference on available-for-sale securities	16	(2)
Foreign currency translation adjustment	(121)	864
Remeasurements of defined benefit plans	(650)	241
Total other comprehensive income	(755)	1,103
Comprehensive income	(1,830)	(814)
(Details)		
Comprehensive income attributable to owners of parent	(1,832)	(720)
Comprehensive income attributable to non-controlling interests	2	(94)

(3) Notes to Quarterly Consolidated Financial Statements

Notes on Going Concern Assumption

No items to report.

Changes in Scope of Consolidation and Application of Equity Method

(Significant Change in Scope of Consolidation)

From the nine months ended December 31, 2021, K.K. Mizumusubi Management Miyagi, a former unconsolidated subsidiary, has been included in the scope of consolidation due to its increased significance.

(Significant Change in Scope of Application of Equity Method)

From the nine months ended December 31, 2021, K.K. Mizumusubi Service Miyagi, an affiliate formerly not accounted for using the equity method, has been included in the scope of application of the equity method due to its increased significance.

Notes on Significant Changes in Shareholders' Equity

On November 19, 2021, the Group retired 4,000,000 shares of treasury stock. As a result, capital surplus decreased by ¥5,603 million to ¥9,406 million, retained earnings decreased by ¥1,200 million to ¥38,310 million, and treasury stock decreased by ¥6,804 million to ¥7,137 million as of December 31, 2021.

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, 2021 after applying tax effect accounting, and multiplying such effective tax rate with income before income taxes for the quarter.

Changes in Accounting Policies

(Application of Accounting Standard for Revenue Recognition)

As of April 1, 2021, the Group adopted the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, revised on March 31, 2020) (hereinafter referred to as “ASBJ Statement No. 29”) and other related standards. ASBJ Statement No. 29 requires the Group to recognize the revenue at an amount the Group is expected to receive in exchange for the goods or services when they transfer to the customer.

The Group previously adopted the percentage of completion method when the outcome of the work performed related to the construction contract is deemed certain. As a result of adopting ASBJ Statement No. 29, when the Group transfers control of the goods or services to the customer over time, it recognizes the revenue over time as it satisfies the performance obligation to transfer the goods or services to the customer. The stage of completion related to the satisfaction of the Group’s performance obligation is determined by the percentage of the contract costs incurred to the end of each reporting period relative to the total contract costs. If the Group cannot reasonably estimate the stage of completion related to the satisfaction of the Group’s performance obligation, but expects to collect the costs incurred, the Group recognizes the revenue by the cost recovery method.

In accordance with the transitional treatment prescribed in the proviso of Paragraph 84 of ASBJ Statement No. 29, the Group adopted ASBJ Statement No. 29 and other related standards as of April 1, 2021, with the cumulative effect of retrospectively adopting ASBJ Statement No. 29 prior to April 1, 2021 being reflected on the retained earnings as of April 1, 2021. Also, in accordance with Paragraph 86 of ASBJ Statement No. 29, the Group does not retrospectively adopt ASBJ Statement No. 29 to the contracts for which substantially all revenue was previously recognized before April 1, 2021 according to the previous standard.

As a result, net sales and cost of sales for the nine months ended December 31, 2021 increased by ¥ 6,302 million and ¥5,267 million, respectively. The Operating loss, ordinary loss and loss before income taxes for the nine months ended December 31, 2021 decreased by ¥ 1,035 million, respectively. Retained earnings as of April 1, 2021 increased by ¥207 million.

As a result of adopting ASBJ Statement No. 29, “Notes and accounts receivable - trade” in “Current assets” on the balance sheet as of March 31, 2021 is included in “Notes and accounts receivable - trade, and contract assets” as of December 31, 2021. “Advances received” in “Current liabilities” as of March 31, 2021 is included in “Contract liabilities” as of December 31, 2021. In accordance with the transitional treatment prescribed in Paragraph 89-2 of ASBJ Statement No. 29, no reclassification has been made for the year ended March 31, 2021 related to the presentation method of ASBJ Statement No. 29.

(Application of Accounting Standard for Fair Value Measurement)

As of April 1, 2021, the Group adopted the “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, issued on July 4, 2019) (hereinafter referred to as “ASBJ Statement No. 30”) and other related standards. In accordance with the transitional treatment prescribed in Paragraph 19 of ASBJ Statement No. 30 and Paragraph 44-2 of “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, revised on July 4, 2019), the Group adopted ASBJ Statement No. 30 and other related standards prospectively. This has no impact on the quarterly financial statements of the Group.

Segment Information

1. Net sales and income or loss by reportable segment for the nine months ended December 31, 2020

(Millions of yen)

	Reportable segments			Adjustments	Consolidated
	Plant Engineering Business	Service Solutions Business	Total		
Net Sales					
Sales to third parties	39,828	18,669	58,497	—	58,497
Inter-segment transactions and transfers	—	—	—	—	—
Total	39,828	18,669	58,497	—	58,497
Segment income or loss	198	(1,285)	(1,086)	—	(1,086)

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.

2-1. Net sales and income or loss by reportable segment for the nine months ended December 31, 2021

(Millions of yen)

	Reportable segments			Adjustments	Consolidated
	Plant Engineering Business	Service Solutions Business	Total		
Net Sales					
Sales to third parties	39,820	26,777	66,597	—	66,597
Inter-segment transactions and transfers	—	—	—	—	—
Total	39,820	26,777	66,597	—	66,597
Segment loss	(2,428)	(212)	(2,640)	—	(2,640)

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.

2-2. Impact of change in the accounting standard for reporting segment for the nine months ended December 31, 2021

As described in Changes in Accounting Policies above, the Group adopted ASBJ Statement No. 29 along with other related standards as of April 1, 2021, and changed its accounting treatment on revenue recognition. As a result, the measurement method of income or loss by business segment was also changed.

This change resulted in the increase of net sales by reportable segment by ¥1,072 million in Plant Engineering Business, and ¥5,230 million in Service Solutions Business for the nine months ended December 31, 2021. Also, segment loss decreased by ¥76 million in Plant Engineering Business, and ¥958 million in Service Solutions Business.

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