

# Outline of Financial Results for the Third Quarter of the Fiscal Year Ending March 2016 and Revision of Full-year Earnings Forecast



January 27, 2016  
METAWATER Co., Ltd.

- I Highlights of Financial Results for the Third Quarter of the Fiscal Year Ending March 2016
- II Revision of Full-year Earnings Forecast
- III Outline of Financial Results for the Third Quarter of the Fiscal Year Ending March 2016

## Segment Information

### ❑ Plant Engineering Segment (“PE”)

This segment primarily comprises various types of engineering work related to the design and construction of mechanical equipment used for water treatment processes in water treatment plants, sewage treatment processes and sludge treatment processes in sewage treatment plants, and the design and construction of electrical equipment used to operate those mechanical equipment.

### ❑ Service Solution Segment (“SS”)

This segment primarily comprises various repair work, maintenance (maintenance and checking), and operational management of mechanical and electric equipment for water treatment plants, sewage treatment plants, waste treatment facilities, and recycling facilities.

## Abbreviations

EPC      Engineering, Procurement and Construction

O&M      Operation and Maintenance

PPP      Public-Private Partnership

A method by which the private sector is involved in providing public services

PFI      Private Finance Initiative

A method by which a public entity uses the private sector in the design, construction, maintenance, operation, and funding of public facilities.

DBO      Design, Build, and Operate

A method by which a public entity uses the private sector in the design, construction, maintenance, and operation of public facilities.

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# Financial Highlights for 3Q of FYE March 2016 (Consolidated)



- Compared to the previous forecast -  
Orders received, Net Sales, and profits in 1Q-2Q were almost as expected.  
Net Sales and profits in 3Q were the same as in 1Q-2Q.  
Orders received in 3Q were delayed until 4Q and did not achieve the previous forecast.
- Compared to the previous quarter -  
Sales and profit in 1Q-3Q decreased due to difference in portion of project.  
Orders received in 1Q-3Q decreased due to delay in orders from 3Q to 4Q.

Unit: JPY billion

	Amount of orders received	Net sales	Operating profit	Ordinary income	Net income
1Q-3Q of FYE March 2016	<b>86.1</b> Year-on-Year: -2.0 -2.3%	<b>37.4</b> Year-on-Year: -4.3 -10.4%	<b>(6.2)</b> Year-on-Year: -3.0	<b>(6.2)</b> Year-on-Year: -3.1	<b>(4.4)</b> Year-on-Year: -2.4
1Q-3Q of FYE March 2015	88.1	41.8	(3.3)	(3.1)	(2.0)

## PE Business: 26 projects were completed where the amount of orders received was one hundred million yen or more

- \* Tokyo Metropolitan Government Bureau of Waterworks:  
Tamagawa water purification plant - Substation equipment improvement project (3Q)
  - \* Tottori City Sewage System Planning Division:  
Akisato sewage treatment plant - Sludge incineration equipment construction project (3Q)
  - \* Kofu City Waterworks and Sewerage Bureau: Extension work of a sludge incinerator facility (electric equipment) in Kofu City Wastewater Treatment Center (2Q)
  - \* Tokyo Metropolitan Government Bureau of Sewerage:  
Shingashi water reclamation center - Sludge concentration equipment construction project (2Q)
  - \* Tokyo Metropolitan Government Bureau of Waterworks: Improvement work for monitoring control equipment, etc. at seven sites outside the Murayama Yamaguchi Reservoir (1Q)
  - \* Okinawa Prefectural Enterprise Bureau:  
Shin ishikawa water purification plant - Ozone processing machinery and equipment construction project (1Q)
- and more...

## SS Business: 3 new projects commenced for operations and maintenance management

- \* Kawasaki City Waterworks Bureau:  
Kase water processing center and processing district pump station - Operational inspection project (3Q)
- \* Osaka Pref. Hirakata City Waterworks and Sewerage Bureau:  
Renewal of the consignment contract for the Nakamiya Water Treatment Plant water treatment equipment operational management project (2Q)
- \* Miyagi Pref. Onagawa-cho:  
Commencement of business for a marine product processing park wastewater treatment equipment construction project (maintenance and operation) (1Q)
- \* Nagasaki Pref. Sasebo City Waterworks and Sewerage Bureau:  
Commencement of business for the Yamanota water purification plant - Integration project (maintenance and operation) (1Q)

and more...

## 13 orders received for large projects of one billion yen or more PE Business

- \* Hokkaido, Katsurazawa Waterworks Corporate Group:  
Katsurazawa water purification plant - Renovation project design and construction project (3Q)
- \* Tokyo Metropolitan Government Bureau of Sewerage:  
Nambu sludge treatment plant - Sludge incineration and dewatering equipment construction project (2Q)
- \* Mie Prefecture: Construction of a central control facility in Shitomogawa Wastewater Treatment Center (2Q)
- \* Ayabe City, Kyoto Prefecture: Installation of machines and equipment in the New No.1 Wastewater Treatment Facility (2Q)
- \* Kushiro City, Hokkaido: Construction of a water treatment plant for the third expansion project of the Aikoku Water Treatment Plant (1Q)

and more...



## SS Business

- \* Kumamoto Pref. Arao City Corporations Office Comprehensive consignment for Arao water business (3Q)
  - \* Participation in new water and sewerage business operations company in Kitakyushu City (3Q)
  - \* Shiga Prefecture Moriyama City Environmental Center - Operation management/repairs and long-term comprehensive repairs (3Q)
  - \* Gotemba Oyama Kouiki Gyousei Kumiai - Concluding a contract for maintenance and operation of garbage recycling facilities (recycling center) (2Q)
  - \* Shikoku Chuo City, Ehime Prefecture: Renewal and operation of the Nakatai Water Treatment Plant, etc. (1Q)
- and more...

# Acquisition of Aqua-Aerobic Systems, Inc. (AAS)

We completed acquisition of AAS group.  
It will contribute to our consolidated performance from FYE March 2017.



**AQUA-AEROBIC SYSTEMS, INC.**  
A Metawater Company



<b>Company Name</b>	Aqua-Aerobic Systems, Inc.	
<b>Location</b>	Illinois, U.S.A.	
<b>Business activities</b>	Product engineering and maintenance service businesses focusing on water and wastewater treatment facilities and equipment	
<b>Established</b>	May 1969	
<b>Net Sales/ Operating Income</b>	USD 68.9 M USD 7.8 M	(FYE Dec. 2014)
<b>No. of Employees</b>	125	
<b>Acquisition Completion Date</b>	January 15, 2016	
<b>Acquisition Price</b>	➤ Acquisition price of AAS (estimates): approx. USD 87 million (Approx. JPY 10.4 B at an exchange rate of 120 yen per USD)	
<b>New Management Framework</b>	➤ Director Ichiro Fukushima will continue in his current post and serve as Chairman of AAS ➤ Robert J. Wimmer will continue in his current post as President and CEO	



# Objectives of Acquisition

METAWATER



AQUA-AEROBIC SYSTEMS, INC.  
A Metawater Company

METAWATER



**Provide Business Resources**

**Backed by the Company's management resources, AAS will engage more than ever in large projects and multiple deals.**

**Offer Business Platform in U.S.**

**The Company will be able to use the AAS Group's business platform to provide the Company's technologies and products.**

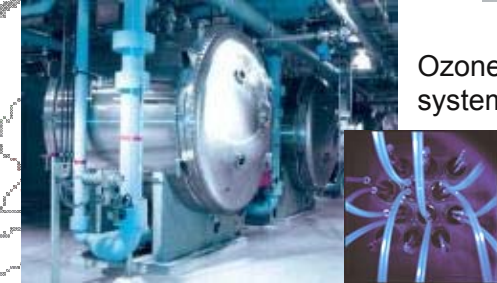
**Joint-development of Technologies and Products**

**It will be possible to develop new products and solutions that meet each regional need by integrating technologies and know-how.**

Ceramic-membrane filtration systems



Ozone generation system



High-speed rainwater treatment system



Circulation-type multi-layer incinerator



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Batch-type and flow-through biological processes



Aerators



Process control systems



Cloth media filter systems for tertiary treatment



Membrane systems



Mixing devices



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# Revision of Full-year Earnings Forecast (Consolidated)

- \* Full-year forecast was revised due to a sales decrease in 4Q and deteriorating profitability of several projects.
- \* In terms of amount of orders received, a high volume is being sustained and the backlog is on an upward trend. As a result, sales and profits are expected to recover from next fiscal year.

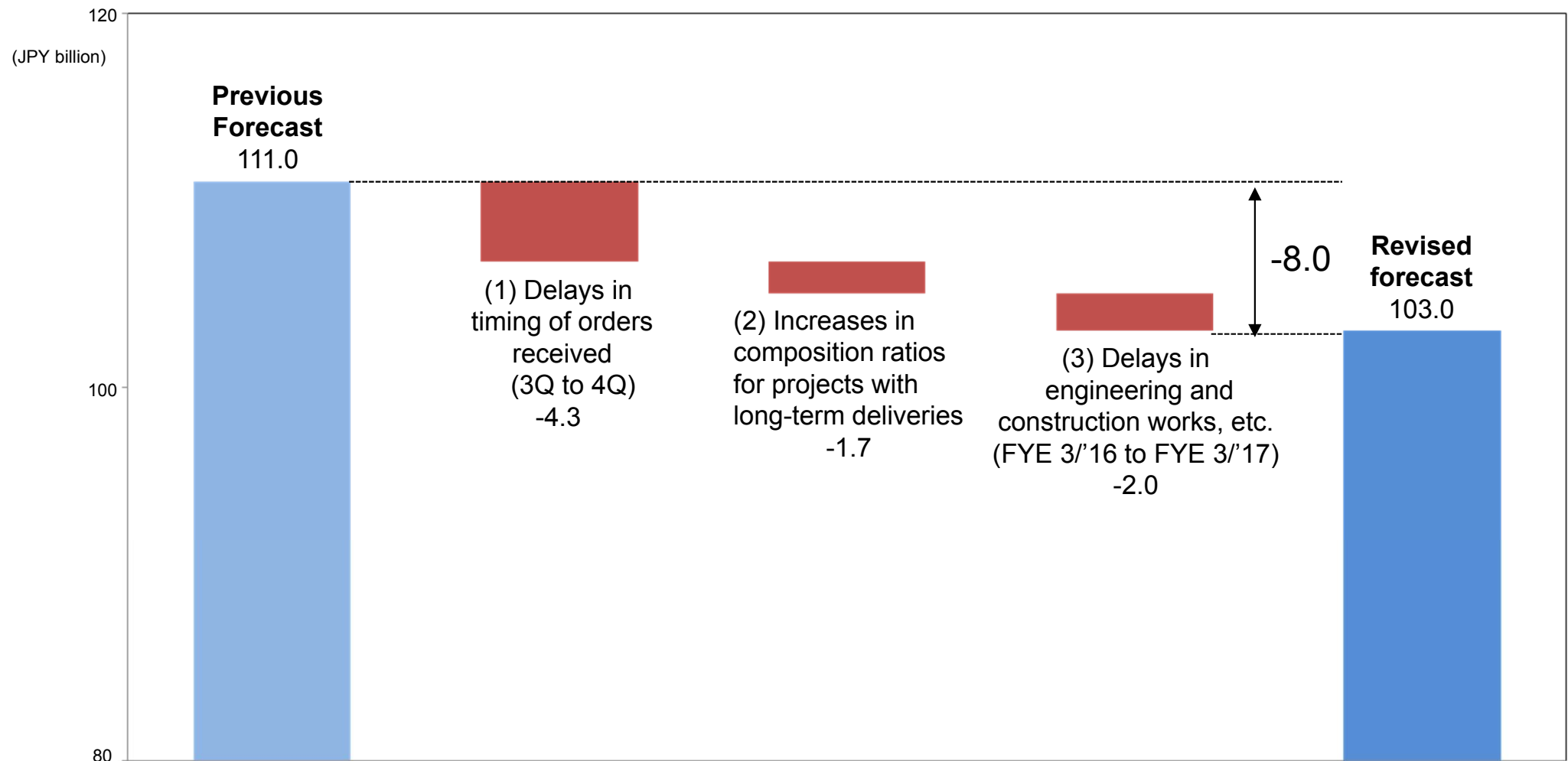
(Unit: JPY billion)

	Amount of orders received	Sales	Operating profit	Ordinary profit	Net profit for the quarter	Dividends
Previous forecast	118.0	111.0	8.4	8.1	5.2	58 yen
Revised forecast	116.0	103.0	5.2	5.2	2.7	58 yen
Change	(2.0)	(8.0)	(3.2)	(2.9)	(2.5)	-
Rate of change	-1.7%	-7.2%	-38.1%	-35.8%	-48.1%	-
Results for previous year	117.2	106.9	8.2	8.2	5.0	58 yen*

\* The Company executed a 100-for-1 stock split of its common stock on October 1, 2014. Dividend based on the results for the previous year assumed the stock split was executed at the beginning of the fiscal year ended March 31, 2014.

# FYE March 2016: Revision of Net Sales Forecast

Full-year forecast of net sales was revised due to factors such as delays in the timing of orders received and increase in composition ratios for projects with long-term deliveries.

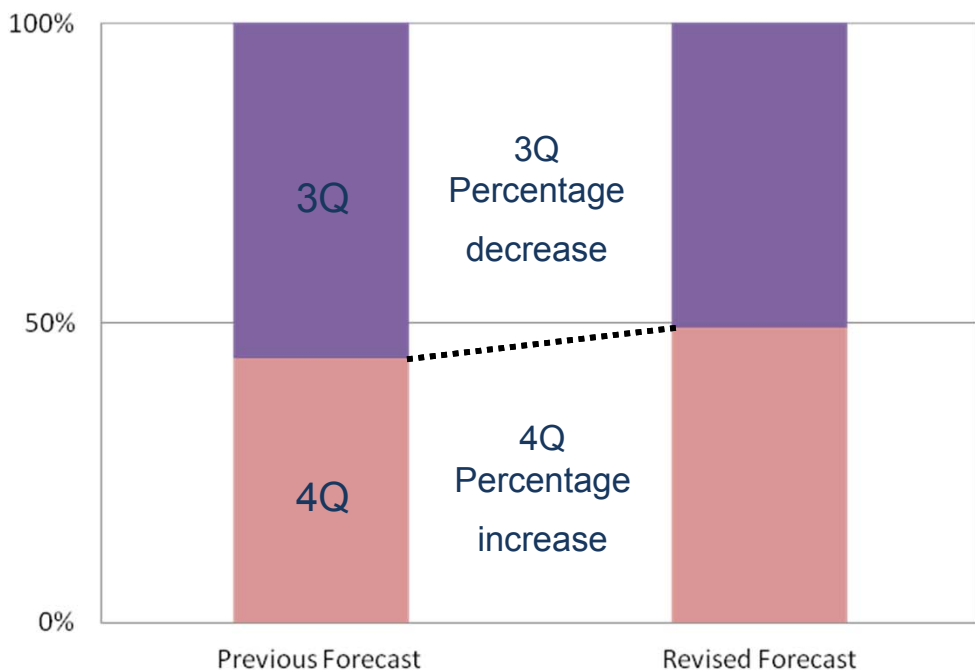


# FYE March 2016: Revision of Net Sales Forecast

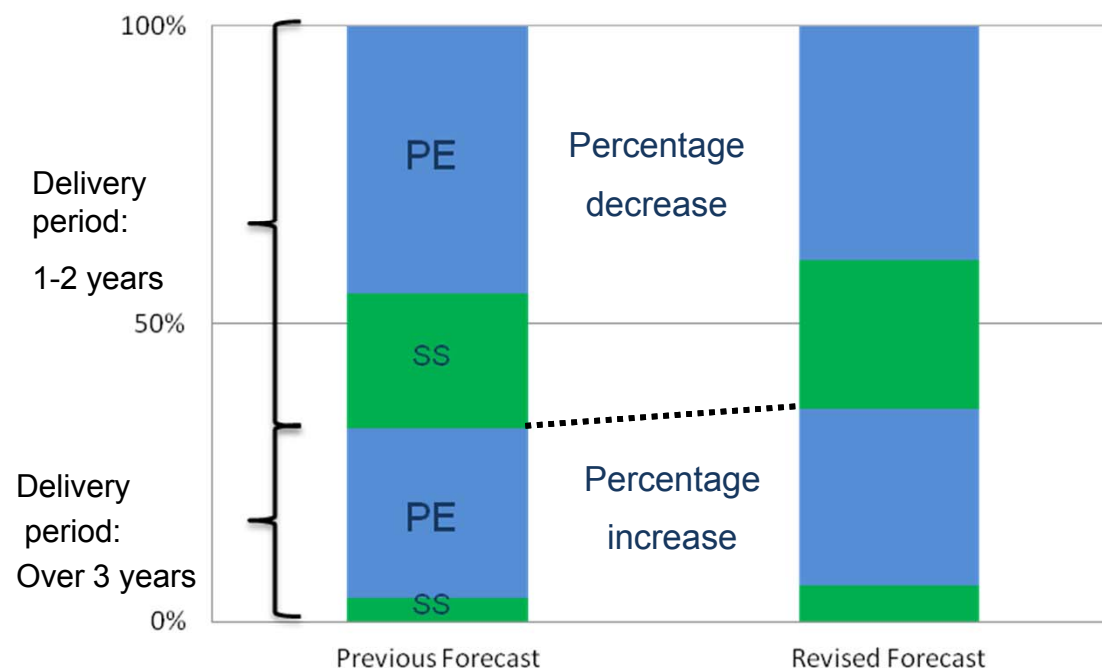
## - Main factors behind decrease in sales -

- (1) Delays in the timing of orders received (-JPY 4.3 b): Some orders projected to be received in 3Q have been delayed until 4Q (left chart)
- (2) Increases in composition ratios for projects with long-term deliveries (-JPY 1.7 b): Among orders received, PE projects with delivery period of 1-2 years decreased and projects with delivery period of 3 years or more increased (right chart)
- (3) Delays in pre-process engineering and construction works etc.(-JPY 2.0 b): Some Sales projected to be recorded in Q4 will be delayed until the next fiscal year.

**Composition ratio of orders received  
in the 2nd Half**



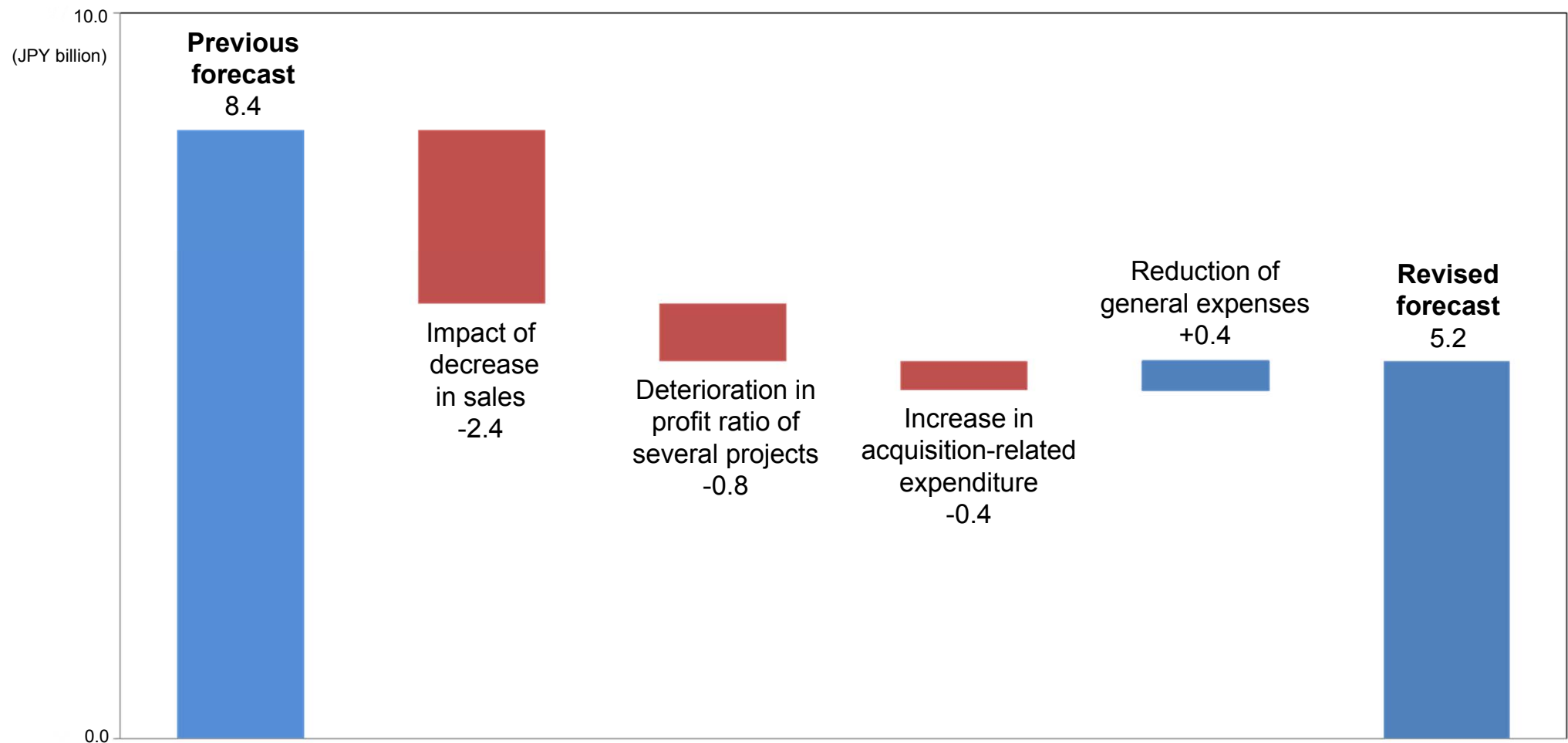
**Orders received by delivery term**





# FYE March 2016: Revision of Operating Profit Forecast

Full-year forecast of operating profit was revised due to the impact of sales decrease and deteriorating profit ratio of several projects.

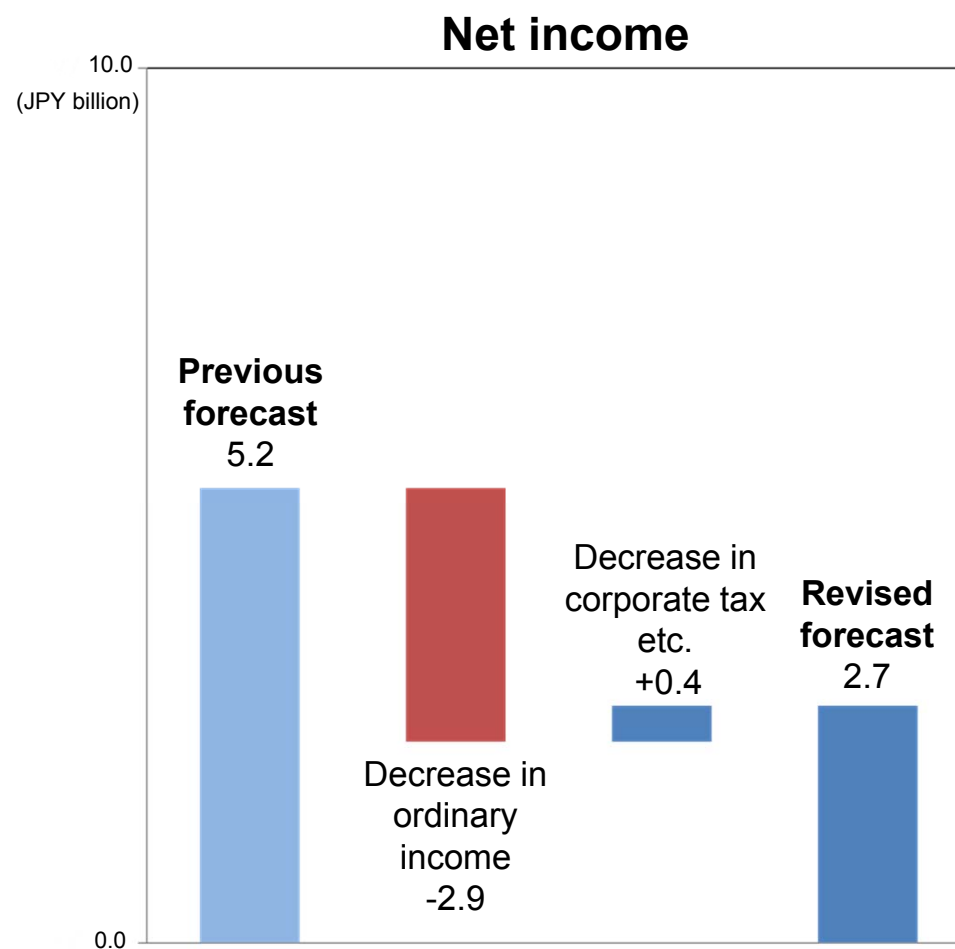
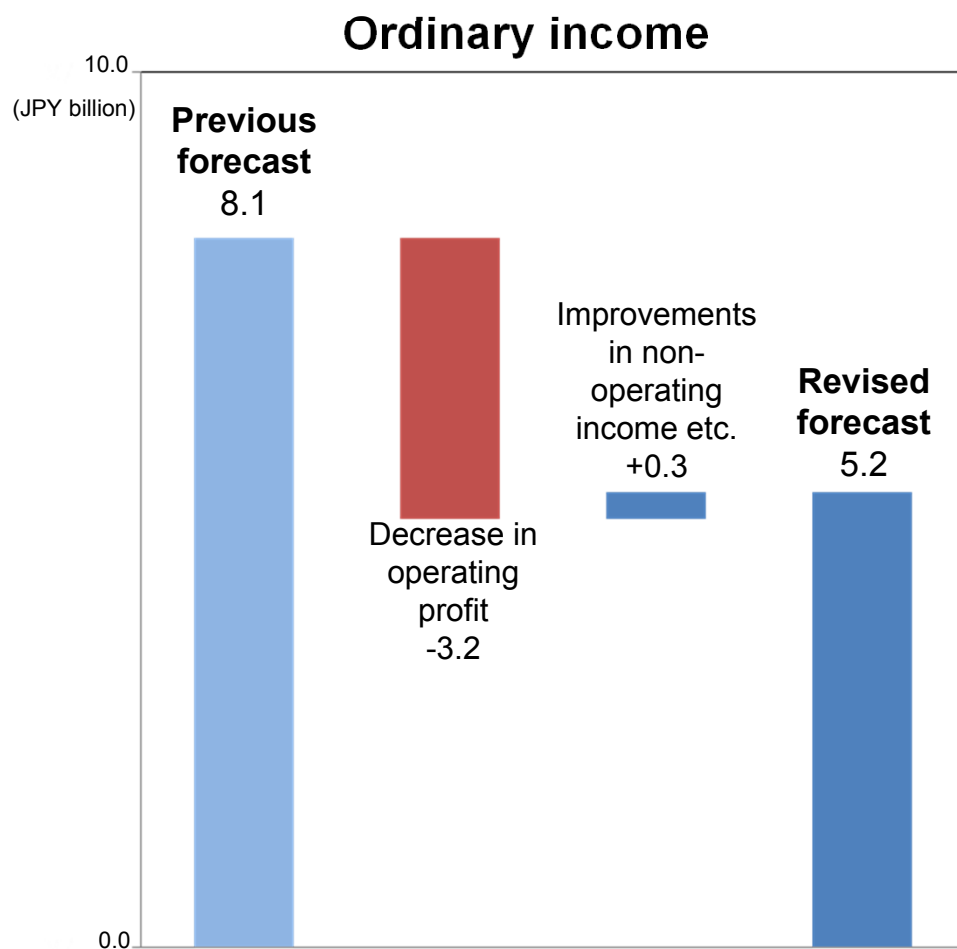




FYE March 2016:

## Revision of Ordinary Income Forecast and Net Income Forecast

- \* The full-year forecast for ordinary income was revised, reflecting the decrease in operating profit and improvement in non-operating income.
- \* The full-year forecast for net income was revised, reflecting the decrease in ordinary income and decrease in corporate taxes etc.



### **III. Outline of Financial Results for the Third Quarter of the Fiscal Year Ending March 2016**

1. Consolidated Statement of Income
2. Segment Information
3. Consolidated Balance Sheets
4. Consolidated Cash Flows
5. Full-Year Earnings Forecast

# Consolidated Statement of Income

(Results for the aggregate 3Q of the fiscal year ending March 2016)



(Billion yen)

	3Q of FYE March 2015	3Q of FYE March 2016	Change
<b>Net sales</b>	41.8	37.4	-4.3
<b>Operating profit</b>	(3.3)	(6.2)	-3.0
<b>Operating margin</b>	-7.8%	-16.6%	
<b>Ordinary income</b>	(3.1)	(6.2)	-3.1
<b>Quarterly net income attributable to parent company shareholders</b>	<b>(2.0)</b>	<b>(4.4)</b>	<b>-2.4</b>

\* Rounded to the nearest 10 million yen

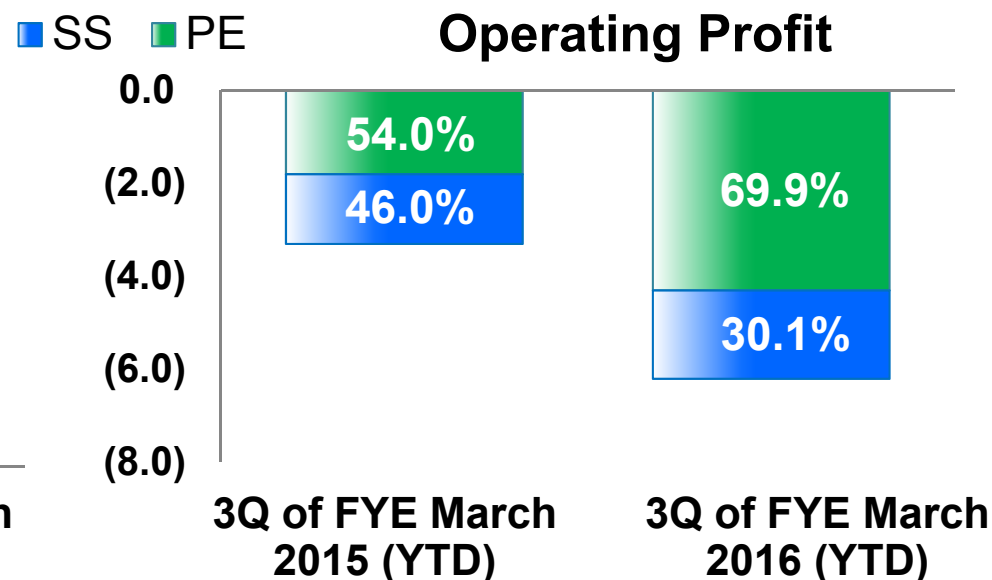
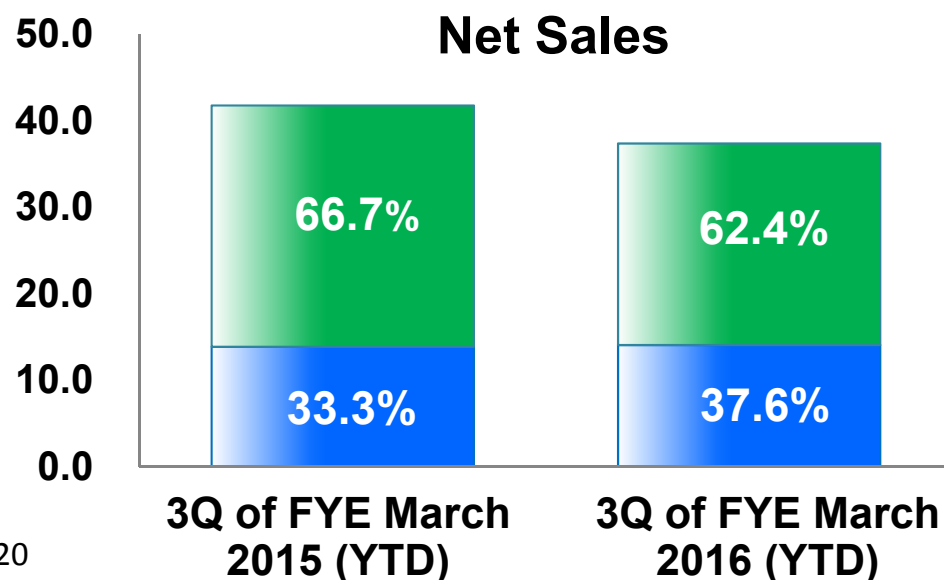
# Segment Information

- PE: Net sales decreased due to increased orders for projects with long-term deliveries
- SS: Operating profit decreased due to deteriorating of declining profit margins from large-lot deals

(Billion yen)

	Net Sales		
	3Q of FYE March 2015 (YTD)	3Q of FYE March 2016 (YTD)	Change
PE	27.9	23.3	-4.6
SS	13.9	14.1	+0.2
Total	41.8	37.4	-4.3

	Operating Profit		
	3Q of FYE March 2015 (YTD)	3Q of FYE March 2016 (YTD)	Change
PE	(1.8)	(4.3)	-2.5
SS	(1.5)	(1.9)	-0.4
Total	(3.3)	(6.2)	-3.0



# Consolidated Balance Sheet

■ Funds obtained from collection of accounts receivable were used for payment of accounts payable or purchase of inventory assets. (Billion yen)

	FYE March 2015 Term-end Results	FYE March 2016 3Q End Results	Change
Cash and deposits	19.5	17.7	-1.8
Short-term investment securities* <sup>1</sup>	11.0	10.0	-1.0
Notes and accounts receivable—trade	66.5	34.4	-32.1
Inventories	5.1	17.0	+11.9
Others	2.8	6.3	+3.5
<b>Total current assets</b>	<b>104.9</b>	<b>85.4</b>	<b>-19.5</b>
Property, plant and equipment	1.7	1.6	-0.1
Intangible assets	2.1	1.8	-0.3
Others	5.6	5.6	—
<b>Total fixed assets</b>	<b>9.4</b>	<b>9.0</b>	<b>-0.4</b>
<b>Total Assets</b>	<b>114.3</b>	<b>94.4</b>	<b>-19.9</b>

	FYE March 2015 Term-end Results	FYE March 2016 3Q End Results	Change
Accounts payable	34.3	13.4	-20.9
Advance receipts	5.1	16.9	+11.8
Short-term loans payable* <sup>2</sup>	(0.8) 0.8	(0.8) 0.8	—
Others	8.2	3.6	-4.6
<b>Total current liabilities</b>	<b>48.4</b>	<b>34.7</b>	<b>-13.7</b>
Long-term loans payable* <sup>3</sup>	(13.7) 13.7	(13.2) 13.2	-0.5
Others	4.4	4.4	—
<b>Total fixed liabilities</b>	<b>18.1</b>	<b>17.6</b>	<b>-0.5</b>
<b>Total Liabilities</b>	<b>66.5</b>	<b>52.3</b>	<b>-14.2</b>
<b>Total Net Assets</b>	<b>47.8</b>	<b>42.1</b>	<b>-5.7</b>
<b>Total Liabilities/ Net Assets</b>	<b>114.3</b>	<b>94.4</b>	<b>-19.9</b>

\* 1: Short-term securities are negotiable certificates of deposits.

\* 2 and 3: The figures in parentheses are the amounts of project finance loan for PFI, etc.

# Status of Consolidated Cash Flows

- Free cash flow worsened due to decreased pre-tax quarterly net income

(Billion yen)

	3Q of FYE March 2015 (YTD)	3Q of FYE March 2016 (YTD)	Change
Cash and cash equivalents at the end of previous FY*1	4.0	30.5	+26.5
Operating cash flow	5.2	(0.3)	-5.5
Investing cash flow	(0.9)	(0.6)	+0.3
Free cash flow	4.3	(0.9)	-5.2
Financing cash flow	20.8	(1.9)	-22.7
Cash and cash equivalents at the end of current FY*1	29.1	27.7	-1.4

\*1: Including securities (Negotiable deposit)

# Full-year Financial Forecast

(Billion yen)

	FYE March 2015 (full-year, actual)	FYE March 2016 (full-year, previous forecast)	FYE March 2016 (current forecast)	Increase or decrease in FYE March 2015 (full-year, actual)	Increase or decrease in FYE March 2016 (full-year, previous forecast)
Net sales	106.9	111.0	<b>103.0</b>	-3.9	-8.0
Operating profit	8.2	8.4	<b>5.2</b>	-3.0	-3.2
Operating margin	7.7%	7.6%	<b>5.0%</b>		
Ordinary income	8.2	8.1	<b>5.2</b>	-3.0	-2.9
Quarterly net income attributable to parent company shareholders	5.0	5.2	<b>2.7</b>	<b>-2.3</b>	<b>-2.5</b>
Orders	117.2	118.0	<b>116.0</b>	-1.2	-2.0

\* Rounded to the nearest 10 million yen

## Disclosure Policy

### 1. Basic Policy

Based on its corporate philosophy, the METAWATER Group strives to become a corporate group that meets expectations of every stakeholder, garners trust from society and continuously contributes to society so as to achieve sustainable growth in society. In accordance with this viewpoint, the METAWATER Group discloses corporate information related to the Group to stakeholders and society in an equal, fair, timely and appropriate manner. It also promotes active communication with stakeholders to facilitate understanding of the METAWATER Group and ensure highly transparent and reliable business operations.

### 2. Basics of information disclosure

The METAWATER Group discloses corporate information whose disclosure is required by relevant laws such as the Companies Act, the Financial Instruments and Exchange Act, and rules set out by financial instruments exchanges in accordance with the applicable laws, regulations or rules. Even if the corporate information does not fall under such information, the Group proactively discloses information as much as possible when it is deemed to be useful for stakeholders or disclosure is deemed to be necessary for society.

### 3. Method of information disclosure

For corporate information whose disclosure is required by the above-mentioned laws, regulations and rules, the Group discloses information in a manner set out by the applicable laws, regulations or rules, and through the Company's website. Information that does not fall under such information is disclosed through the media, the Company's website or other appropriate means in consideration of its significance and urgent needs.

### 4. Communication after information is disclosed

The METAWATER Group actively communicates with stakeholders regarding disclosed information by answering questions in a conference, briefings meeting, interviews and inquiries. Opinions received from stakeholders through communication are shared within the Company's Group and treated as future reference.

### 5. Silent Period

In order to prevent the leaks of accounts closing information and ensure fairness, the Group sets a silent period that starts on the day after the closing date (including quarterly periods) through to the day of announcing financial statements. During this silent period, the Group does not answer any questions in a conference, briefings meeting, interviews and inquiries regarding the accounts closing and business prospects, except where information on a revision of business forecasts is disclosed.

### 6. Forward-looking statements

Of business forecasts, strategies and targets disclosed by the METAWATER Group, forward-looking statements are made based on information available to the Company's Group as of the date of disclosure and a certain grounds that are deemed to be reasonable. Actual performance may differ from forecasts as a result of various factors.

### 7. Establishment of Internal Structure

The METAWATER Group builds an internal structure and establishes internal rules so as to comply with this Disclosure Policy, disclose information in an appropriate manner, and communicate with stakeholders.



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