



METAWATER Co., Ltd.

For Immediate Release

January 31, 2018

CONSOLIDATED RESULTS FOR THE NINE MONTHS ENDED DECEMBER 31, 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
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Filing date of quarterly securities report	February 14, 2018
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, 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	%
Nine months ended December 31, 2017	44,110	(6.7)	(5,194)	—	(5,200)	—	(3,674)	—
Nine months ended December 31, 2016	47,277	26.2	(4,195)	—	(4,016)	—	(2,314)	—

Note: Comprehensive income: Nine months ended December 31, 2017 (3,693) million yen — %
 Nine months ended December 31, 2016 (4,078) million yen — %

	Net income per share - Basic -	Net income per share - Diluted -
	Yen	Yen
Nine months ended December 31, 2017	(141.76)	—
Nine months ended December 31, 2016	(89.27)	—

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 nine months ended December 31, 2016.

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity to total assets
	Million yen	Million yen	%
As of December 31, 2017	104,422	47,061	44.9
As of March 31, 2017	120,961	52,260	43.1

Note: Shareholders' equity: As of December 31, 2017 46,928 million yen
As of March 31, 2017 52,142 million yen

2. Dividends

Period	Dividends per share				
	1Q	2Q	3Q	4Q	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2017	—	29.00	—	29.00	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 -
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Fiscal year ending March 31, 2018	115,000	3.0	6,500	2.7	6,400	2.4	4,200	(11.4)	162.00

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, 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 December 31, 2017.
 - (b) Number of treasury stock at the end of the period: 44 shares as of March 31, 2017 and 44 shares as of December 31, 2017.
 - (c) Average number of shares issued and outstanding for the period: 25,923,471 shares for the nine months ended December 31, 2016 and 25,923,456 shares for the nine months ended December 31, 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 Nine Months Ended December 31, 2017

(1) Explanation of Operating Results

During the nine months ended December 31, 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 the 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 nine months ended December 31, 2017, net sales was ¥44,110 million (6.7% decrease year to year), operating loss was ¥5,194 million (¥4,195 million for the nine months ended December 31, 2016), ordinary loss was ¥5,200 million (¥4,016 million for the nine months ended December 31, 2016) and loss attributable to owners of parent was ¥3,674 million (¥2,314 million for the nine months ended December 31, 2016). Loss attributable to owners of parent increased as favorable movement of tax-effect accounting was recorded at the subsidiary in the US for the nine months ended December 31, 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 of the Service Solutions Business, outstanding order was ¥105,527 million (30.1% increase year to year).

Operating results by segment are as follows:

(Plant Engineering Business)

For the Plant Engineering Business, net sales amounted to ¥30,594 million (5.4% decrease year to year) and operating loss amounted to ¥3,125 million (¥2,882 million for the nine months ended December 31, 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 ¥55,194 million (19.6% increase year to year).

(Service Solutions Business)

For the Service Solutions Business, net sales amounted to ¥13,516 million (9.5% decrease year to year) and operating loss amounted to ¥2,068 million (¥1,313 million for the nine months ended December 31, 2016) due to sluggish movement in sales of PPP business. Outstanding order was ¥50,333 million (44.0% 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 December 31, 2017 decreased by ¥16,538 million compared to March 31, 2017 to ¥104,422 million.

Current assets decreased by ¥15,583 million compared to March 31, 2017 to ¥87,997 million due to a decrease in notes and accounts receivable - trade.

Non-current assets decreased by ¥954 million compared to March 31, 2017 to ¥16,425 million due to a decrease in goodwill and customer-related assets.

Current liabilities decreased by ¥10,363 million compared to March 31, 2017 to ¥38,166 million due to a decrease in accounts payable - trade, offsetting with an increase in advances received.

Non-current liabilities decreased by ¥975 million compared to March 31, 2017 to ¥19,194 million due to a decrease in PFI and other project finance loans.

Total net assets decreased by ¥5,199 million compared to March 31, 2017 to ¥47,061 million due to 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, 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 December 31, 2017
Assets		
Current assets		
Cash and deposits	24,230	26,200
Notes and accounts receivable - trade	67,946	32,830
Work in process	3,119	18,014
Supplies	4,127	4,261
Other current assets	4,155	6,689
Total current assets	103,580	87,997
Non-current assets		
Property, plant and equipment	3,059	2,962
Intangible assets		
Goodwill	2,045	1,873
Customer-related assets	3,044	2,808
Other	3,069	2,549
Total intangible assets	8,160	7,232
Investments and other assets	6,160	6,231
Total non-current assets	17,380	16,425
Total assets	120,961	104,422

(1) Quarterly Consolidated Balance Sheets (continued)

(Millions of yen)

	As of March 31, 2017	As of December 31, 2017
Liabilities		
Current liabilities		
Accounts payable - trade	20,037	7,404
Electronically recorded obligations	7,637	5,444
Short-term loans payable	284	624
Current portion of PFI and other project finance loans	825	832
Income taxes payable	2,367	1
Advances received	8,672	17,608
Provision for warranties for completed construction	1,063	1,101
Provision for loss on construction contracts	167	143
Other current liabilities	7,474	5,004
Total current liabilities	48,530	38,166
Non-current liabilities		
Long-term loans payable	2,436	2,313
PFI and other project finance loans	12,382	11,584
Liability for retirement benefit	5,350	5,296
Total non-current liabilities	20,170	19,194
Total liabilities	68,700	57,361
Net assets		
Shareholders' equity		
Capital stock	11,946	11,946
Capital surplus	15,080	15,080
Retained earnings	27,787	22,608
Treasury stock	(0)	(0)
Total shareholders' equity	54,814	49,635
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	32	47
Foreign currency translation adjustment	133	(276)
Remeasurements of defined benefit plans	(2,838)	(2,477)
Total accumulated other comprehensive income	(2,671)	(2,707)
Non-controlling interest	117	132
Total net assets	52,260	47,061
Total liabilities and net assets	120,961	104,422

(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, 2016	Nine months ended December 31, 2017
Net sales	47,277	44,110
Cost of sales	39,609	36,990
Gross profit	7,667	7,120
Selling, general and administrative expenses	11,862	12,315
Operating loss	(4,195)	(5,194)
Non-operating income		
Interest income	175	144
Dividends income	37	33
Foreign exchange gains	133	14
Miscellaneous income	57	14
Total non-operating income	403	206
Non-operating expenses		
Interest expenses	195	161
Loss on disposal of non-current assets	30	47
Miscellaneous loss	0	4
Total non-operating expenses	225	213
Ordinary loss	(4,016)	(5,200)
Extraordinary loss		
Loss on valuation of investment securities	15	—
Total extraordinary loss	15	—
Loss before income taxes	(4,032)	(5,200)
Income taxes	(1,734)	(1,542)
Net loss	(2,297)	(3,658)
Profit attributable to non-controlling interests	16	16
Loss attributable to owners of parent	(2,314)	(3,674)

(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, 2016	Nine months ended December 31, 2017
Net loss	(2,297)	(3,658)
Other comprehensive income		
Valuation difference on available-for-sale securities	7	14
Foreign currency translation adjustment	(2,171)	(410)
Remeasurements of defined benefit plans	382	360
Total other comprehensive loss	(1,781)	(35)
Comprehensive loss	(4,078)	(3,693)
(Details)		
Comprehensive loss attributable to owners of parent	(4,095)	(3,710)
Comprehensive income attributable to non-controlling interests	16	16

(3) 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 nine months ended December 31, 2017 after applying tax effect accounting, and multiplying such effective tax rate with income before income taxes for the quarter.

Segment Information

Nine months ended December 31, 2016

(Millions of yen)

	Reportable segments			Adjustments	Consolidated
	Plant Engineering Business	Service Solutions Business	Total		
Net Sales					
Sales to third parties	32,337	14,939	47,277	—	47,277
Inter-segment transactions and transfers	—	—	—	—	—
Net sales	32,337	14,939	47,277	—	47,277
Segment loss	(2,882)	(1,313)	(4,195)	—	(4,195)

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.

Nine months ended December 31, 2017

(Millions of yen)

	Reportable segments			Adjustments	Consolidated
	Plant Engineering Business	Service Solutions Business	Total		
Net Sales					
Sales to third parties	30,594	13,516	44,110	—	44,110
Inter-segment transactions and transfers	—	—	—	—	—
Net sales	30,594	13,516	44,110	—	44,110
Segment loss	(3,125)	(2,068)	(5,194)	—	(5,194)

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 nine months ended December 31, 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 nine months ended December 31, 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 included in the quarterly consolidated financial statements for the nine months ended December 31, 2017.

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 nine months ended December 31, 2016, operating income, ordinary income and income before income taxes decreased by ¥13 million, respectively.

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