

**METAWATER Co., Ltd.**

For Immediate Release

October 29, 2019

**CONSOLIDATED RESULTS FOR THE SIX MONTHS ENDED
SEPTEMBER 30, 2019 (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	https://www.metawater.co.jp
Representative	Yasushi Nakamura President and Representative Director
Contact person	Masayuki Nakagawa Executive Officer Executive General Manager of Financial Planning Office (TEL.:+81-3-6853-7317)
Filing date of quarterly securities report	November 12, 2019
Payment date of cash dividends	December 3, 2019
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, 2019**(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, 2019	34,052	15.3	(2,957)	—	(3,077)	—	(2,202)	—
Six months ended September 30, 2018	29,534	20.5	(3,651)	—	(3,355)	—	(2,368)	—

Note: Comprehensive income: Six months ended September 30, 2019 (2,150) million yen — %
Six months ended September 30, 2018 (2,760) million yen — %

	Net income per share - Basic -	Net income per share - Diluted -
	Yen	Yen
Six months ended September 30, 2019	(84.95)	—
Six months ended September 30, 2018	(91.37)	—

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity to total assets
	Million yen	Million yen	%
As of September 30, 2019	114,111	56,075	49.0
As of March 31, 2019	132,620	59,031	44.4

Note: Shareholders' equity: As of September 30, 2019 55,932 million yen
As of March 31, 2019 58,889 million yen

2. Dividends

Period	Dividends per share				
	1Q	2Q	3Q	4Q	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2019	—	31.00	—	31.00	62.00
Fiscal year ending March 31, 2020	—	31.00			
Fiscal year ending March 31, 2020 (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, 2020

(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, 2020	125,000	6.5	8,200	7.8	8,200	7.5	5,600	8.3	216.02

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, 2019 (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, 2019 and 25,923,500 shares as of September 30, 2019.
 - (b) Number of treasury stock at the end of the period: 150 shares as of March 31, 2019 and 186 shares as of September 30, 2019.
 - (c) Average number of shares issued and outstanding for the period: 25,923,398 shares for the six months ended September 30, 2018 and 25,923,338 shares for the six months ended September 30, 2019.

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 Six Months Ended September 30, 2019

(1) Explanation of Operating Results

During the six months ended September 30, 2019, business conditions of the Japanese economy have recovered moderately, although some weakness remained. This is due in part to the effects of various government policies amid the improving labor market and increasing salary levels. The global economy continued to recover moderately as a whole, despite the risks of uncertainty related to developments in trade issues, the outlook for the Chinese economy and the government policies.

Under such circumstances, in order to achieve the Midterm Business Plan 2020 (through the fiscal year ending March 31, 2021), the Group tries its 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, 2019, net sales was ¥34,052 million (15.3% increase year to year), operating loss was ¥2,957 million (¥3,651 million for the six months ended September 30, 2018), ordinary loss was ¥3,077 million (¥3,355 million for the six months ended September 30, 2018) and loss attributable to owners of parent was ¥2,202 million (¥2,368 million for the six months ended September 30, 2018). The outstanding order was ¥66,461 million (11.9% increase 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 second quarter 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 ¥21,404 million (7.8% increase year to year) and operating loss amounted to ¥1,302 million (¥1,753 million for the six months ended September 30, 2018), due to a steady growth in EPC and foreign business. Outstanding order was ¥33,004 million (6.7% increase year to year).

(Service Solutions Business)

For the Service Solutions Business, net sales amounted to ¥12,648 million (30.8% increase year to year) due to a steady growth in O&M and PPP businesses. Operating loss amounted to ¥1,655 million (¥1,897 million for the six months ended September 30, 2018). Outstanding order was ¥33,457 million (17.5% 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, 2019 decreased by ¥18,500 million compared to March 31, 2019

to ¥114,111 million.

Current assets decreased by ¥18,907 million compared to March 31, 2019 to ¥96,630 million due to a decrease in notes and accounts receivable - trade, offsetting with an increase in cash and deposits.

Non-current assets increased by ¥398 million compared to March 31, 2019 to ¥17,480 million due to a increase in machinery and equipment.

Current liabilities decreased by ¥14,876 million compared to March 31, 2019 to ¥41,450 million due to a decrease in accounts payable - trade, offsetting with an increase in advances received.

Non-current liabilities decreased by ¥677 million compared to March 31, 2019 to ¥16,585 million due to a decrease in PFI and other project finance loans.

Total net assets decreased by ¥2,955 million compared to March 31, 2019 to ¥56,075 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, 2019 increased by ¥12,742 million compared to March 31, 2019 to ¥40,538 million. An analysis of the cash flows for the six months ended September 30, 2019 and related commentary thereon is presented below:

(Cash flows from operating activities)

The funds generated by operating activities was ¥15,438 million (¥2,912million increase year to year): ¥41,208 million decrease in notes and accounts receivable - trade, offsetting with ¥3,077 million used for income before income taxes, ¥2,182 million used for payment of income taxes and ¥15,742 million decrease in notes and accounts payable - trade.

(Cash flows from investing activities)

The funds used for investing activities was ¥1,238 million (¥759 million increase year to year): ¥652 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 ¥1,417 million (¥105 million increase year to year): ¥803 million used for payment of dividends and ¥420 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, 2019, the Group has revised the forecast for the fiscal year ending March 31, 2020 announced on April 25, 2019, as follows.

Consolidated Business Forecast for the fiscal year ending March 31, 2020

	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)	125,000	8,000	8,000	5,500	212.16
Revised forecast (B)	125,000	8,200	8,200	5,600	216.02
Change (B - A)	0	200	200	100	
Change %	0.0%	2.5%	2.5%	1.8%	

(For reference) Actual result for the fiscal year ended March 31, 2019	117,342	7,607	7,624	5,170	199.46
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2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheets

	(Millions of yen)	
	As of March 31, 2019	As of September 30, 2019
Assets		
Current assets		
Cash and deposits	28,589	41,308
Notes and accounts receivable - trade	76,282	35,008
Work in process	4,670	12,413
Supplies	3,932	4,444
Other current assets	2,062	3,455
Total current assets	115,538	96,630
Non-current assets		
Property, plant and equipment	3,188	3,505
Intangible assets		
Goodwill	1,670	1,627
Customer-related assets	2,539	2,562
Other	1,861	1,790
Total intangible assets	6,072	5,980
Investments and other assets	7,822	7,994
Total non-current assets	17,082	17,480
Total assets	132,620	114,111

(1) Quarterly Consolidated Balance Sheets (continued)

(Millions of yen)

	As of March 31, 2019	As of September 30, 2019
Liabilities		
Current liabilities		
Accounts payable - trade	18,278	7,757
Electronically recorded obligations	8,380	5,119
Short-term loans payable	337	273
Current portion of PFI and other project finance loans	844	850
Income taxes payable	2,419	193
Advances received	16,075	19,681
Provision for warranties for completed construction	1,361	1,358
Provision for loss on construction contracts	517	596
Other current liabilities	8,111	5,618
Total current liabilities	56,326	41,450
Non-current liabilities		
Long-term loans payable	1,847	1,660
PFI and other project finance loans	10,705	10,278
Liability for retirement benefit	4,603	4,531
Other non-current liabilities	107	115
Total non-current liabilities	17,262	16,585
Total liabilities	73,589	58,035
Net assets		
Shareholders' equity		
Capital stock	11,946	11,946
Capital surplus	15,080	15,080
Retained earnings	33,830	30,824
Treasury stock	(0)	(0)
Total shareholders' equity	60,856	57,850
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	49	58
Foreign currency translation adjustment	(371)	(522)
Remeasurements of defined benefit plans	(1,645)	(1,454)
Total accumulated other comprehensive income	(1,967)	(1,918)
Non-controlling interest	142	143
Total net assets	59,031	56,075
Total liabilities and net assets	132,620	114,111

(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, 2018	Six months ended September 30, 2019
Net sales	29,534	34,052
Cost of sales	25,287	28,402
Gross profit	4,246	5,649
Selling, general and administrative expenses	7,897	8,607
Operating loss	(3,651)	(2,957)
Non-operating income		
Interest income	104	88
Dividends income	53	44
Foreign exchange gains	249	—
Miscellaneous income	0	11
Total non-operating income	408	144
Non-operating expenses		
Interest expenses	108	99
Loss on disposal of non-current assets	4	6
Foreign exchange loss	—	150
Miscellaneous loss	0	7
Total non-operating expenses	112	264
Ordinary loss	(3,355)	(3,077)
Loss before income taxes	(3,355)	(3,077)
Income taxes	(1,010)	(877)
Net loss	(2,344)	(2,199)
Profit attributable to non-controlling interests	23	2
Loss attributable to owners of parent	(2,368)	(2,202)

(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, 2018	Six months ended September 30, 2019
Net loss	(2,344)	(2,199)
Other comprehensive income		
Valuation difference on available-for-sale securities	10	8
Foreign currency translation adjustment	(653)	(150)
Remeasurements of defined benefit plans	227	190
Total other comprehensive (loss) / income	(415)	49
Comprehensive loss	(2,760)	(2,150)
(Details)		
Comprehensive loss attributable to owners of parent	(2,784)	(2,153)
Comprehensive income attributable to non-controlling interests	23	2

(3) Consolidated Statement of Cash Flows

	(Millions of yen)	
	Six months ended September 30, 2018	Six months ended September 30, 2019
Cash flows from operating activities		
Loss before income taxes	(3,355)	(3,077)
Depreciation	670	446
Amortization of goodwill	68	70
Increase/(decrease) in liabilities for retirement benefits	(95)	(122)
(Increase)/decrease in assets for retirement benefits	(72)	(113)
Increase/(decrease) in provision for warranties for completed construction	(121)	5
Increase/(decrease) in provision for loss on construction contracts	(19)	78
Interest income and dividends income	(157)	(132)
Interest expenses	108	99
Foreign exchange loss/(gain)	(271)	150
Loss on disposal of non-current assets	4	6
(Increase)/decrease in notes and accounts receivable - trade	38,009	41,208
(Increase)/decrease in inventory	(9,468)	(8,216)
Increase/(decrease) in notes and accounts payable-trade	(17,089)	(15,742)
Increase/(decrease) in advances received	6,720	3,599
Other cash flows from operating activities	(609)	(670)
Subtotal	14,317	17,589
Interest and dividends income received	157	132
Interest expenses paid	(106)	(101)
Income taxes paid	(1,842)	(2,182)
Cash flows from operating activities	12,525	15,438

(3) Consolidated Statement of Cash Flows (continued)

	(Millions of yen)	
	Six months ended September 30, 2018	Six months ended September 30, 2019
Cash flows from investing activities		
Net (increase)/decrease in time deposits	34	23
Purchase of property, plant and equipment	(362)	(652)
Purchase of intangible assets	(116)	(116)
Purchase of investment securities	(55)	(90)
Purchase of new consolidated subsidiaries	—	(430)
Payments of loans receivable	—	(2)
Collection of loans receivable	18	17
Other cash flows from investing activities	1	11
Cash flows from investing activities	(478)	(1,238)
Cash flows from financing activities		
Repayments of short-term loans payable	(143)	(192)
Repayments of PFI and other project finance loans	(415)	(420)
Purchase of treasury stock	(0)	(0)
Cash dividends paid	(751)	(803)
Cash dividends paid to non-controlling interests	(1)	(1)
Cash flows from financing activities	(1,312)	(1,417)
Effect of exchange rate change on cash and cash equivalents	(2)	(39)
Net increase/(decrease) in cash and cash equivalents	10,731	12,742
Cash and cash equivalents at April 1	24,977	27,796
Cash and cash equivalents at September 30	35,709	40,538

(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, 2019 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, 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.

Six months ended September 30, 2019

(Millions of yen)

	Reportable segments			Adjustments	Consolidated
	Plant Engineering Business	Service Solutions Business	Total		
Net Sales					
Sales to third parties	21,404	12,648	34,052	—	34,052
Inter-segment transactions and transfers	—	—	—	—	—
Net sales	21,404	12,648	34,052	—	34,052
Segment loss	(1,302)	(1,655)	(2,957)	—	(2,957)

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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