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TRANSLATION - FOR REFERENCE ONLY

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Formulation of Medium-Term Business Plan

We are pleased to inform you that METAWATER has approved a medium-term business plan for three years through the fiscal year ending March 2018 at the Board of Directors Meeting held on May 29, 2015.

1. Background and Objectives of the Formulation of Medium-Term Business Plan

METAWATER was established in April 2008 as the first Japanese comprehensive engineering company engaged in the water and environmental business field. Since its foundation, as a corporate group that is equipped with both mechanical and electrical technologies and that is capable of offering services from the designing and construction of facilities and equipment to their operation and maintenance, the Group has expanded business in each of the water, sewerage and environmental fields at home and abroad.

The water and sewerage business in Japan is the core business of the Group. Their facilities and equipment were developed during the era of rapid economic growth and have become extremely old, requiring major improvements and renewal. In addition, natural disasters are becoming increasingly serious, as seen in disasters caused by localized downpours, the so-called “guerrilla rainstorms,” posing the urgent need to take preventive measures. On the other hand, many local governments are facing financial difficulties and a shortage of human resources partly due to a declining population.

Given these circumstances, the “Act on Promotion of Private Finance Initiative” (hereinafter referred to as the “PFI Act”) was enforced in 1999 and has promoted coordination in improving public facilities between the private and public sectors through the utilization of private funds, technology, and expertise. As shown in partial amendments of the PFI Act in 2011 and the growth strategy led by the government, the privatization of the water and sewerage business is expected to become more common in wider regions in the near future.

In order to respond to changes in the environment surrounding the water and sewerage business in Japan, the Group, as the first water, environmental and infrastructure company listed in the “Electric Power & Gas” industrial classification of the Tokyo Stock Exchange, is determined to contribute to sustaining a recycling-based society centered on water by maintaining for the future “water and environmental infrastructure,” which is a lifeline for citizens’ everyday life as well as industry, in cooperation with water and sewerage business operators such as local governments, companies in each region and partners of the Group. For this purpose, the Group has formulated a medium-term business plan from a long-range viewpoint and will proceed with its implementation.

2. Outline of Medium-Term Business Plan

(1) Basic Policy of Business Management

Under the philosophy of providing optimal water treatment solutions to create a water cycle, the Group aspires to become a corporate group that can obtain high social credibility and continue sustainable growth together with society through meeting the expectations of our stakeholders including citizens, local governments, shareholders and investors, business associates, and partner companies.

(2) Long-Term Vision and Medium-Term Business Strategy

The Group has assumed that as coordination between the private and public sectors in improving public facilities will be promoted further in the future by utilizing private funds, technology and expertise, operating rights for the water and sewerage business that are commissioned to the private sector using the concession system*¹ will reach the 200 billion yen level annually in the 2020s. The Group has made it its long-term vision to increase its consolidated sales up to the 200 billion yen level by taking actions based on the above basic policy to develop into a “water operation business company.”

To realize this vision, the medium-term business plan is compiled to direct the Group to reinvent itself from a “comprehensive engineering company in the water and environmental fields” to a “total solution company in the water, environmental and infrastructure fields.” At the same time, according to the plan, the Group will attempt to cement its position in the PFI*²/DBO*³ business that is regarded as the PPP*⁴ scheme leading to commissioning operating rights for the water and sewerage business to the private sector as well as contribute to the renewal of facilities and equipment that is an urgent issue in the water and sewerage business. In its overseas business, the Group will pursue business expansion aligned with the infrastructure system export strategy led by the government. Thus, the Group will make its utmost efforts to create a sustainable society.

Specifically, the Group aims to extend its business domain in coordination with local companies and partner companies in Japan, and reinforce the EPC*⁵ and O&M*⁶ segments in Japan, which is our core field, in an effort to expand the PPP segment and the overseas business, which is positioned as our growth field, while making strategic investments in strengthening its business foundations at home and abroad, and development of new solutions.

*1 Concession system: A system under which the ownership of facilities is not transferred, but operating rights for public facilities are granted to private companies for a long term. The amended PFI Act of 2011 provides this as “Operating rights for public facilities, etc.”

*2 PFI: Private Finance Initiative. A method of public works to make good use of the private sector in the designing, construction, maintenance, and operation of public facilities as well as the fund-raising needed for these activities.

*3 DBO: Design, Build and Operate. A method for public works by which the private sector is used for the designing, construction, maintenance, and operation of public facilities.

*4 PPP: Public Private Partnership. This is a notion that refers broadly to methods by which the private sector is involved in the provision of public services on an attempt to improve efficiency and enhance quality in public services by utilizing private funds, technology, expertise, and management capabilities.

*5 EPC: Engineering, Procurement and Construction. In the Group, this term refers to designing and construction of water and sewerage treatment facilities and equipment, which is the core of our plant engineering business segment

*6 O&M: Operation and Maintenance. In the Group, this term means the maintenance and operation of water and sewerage treatment facilities and equipment, which is the core of our service solution business segment.

(3) Business Targets

On the assumption of an increase in the renewal of water and sewerage treatment facilities and equipment, and the PFI/DBO business, we added the effects of investments in these businesses and R&D and have set up the following medium-term targets (on a consolidated basis).

	Fiscal year ended March 2015 (Actual)	Fiscal year ending March 2016 (Forecast) (Announced on April 24)	Fiscal year ending March 2018 (Target)
Orders	117.0 billion yen	118.0 billion yen	140.0 billion yen
Net sales	106.9 billion yen	111.0 billion yen	130.0 billion yen
Operating profit	8.2 billion yen	8.4 billion yen	10.0 billion yen
Net income	5.0 billion yen	5.2 billion yen	6.0 billion yen
ROE	10.4%*7	–	10.0% or more

*7 The above figure is calculated by dividing consolidated net income for the fiscal year ended March 2015 by consolidated net assets at the end of the same term.

(4) Basic Policy of Profit Distribution

The Company's basic policy is to return profits to shareholders constantly in accordance with its business performance while maintaining necessary internal reserves for the purpose of sustaining growth and responding to changes in the business environment.

The Company, in principle, distributes dividends of surplus twice a year, as interim and year-end dividends.

3. Specific Measures

(1) Strengthening of Core Field

[1] EPC segment

- Develop our unique differentiated technology.
- Extend the engineering domain.
- Promote engineering with maintenance in mind.

[2] O&M segment

- Enhance efficiency by our unique ICT technology "Water Business Cloud (WBC)".
- Expand a backup system by promoting the partnership strategy.
- Standardize the maintenance-operation management work.

(2) Expansion of Growth Field

[1] PPP segment

- Propose and create PFI/DBO projects by taking advantage of the proposal system based on the PFI Act.
- Shift to a broader area and develop asset management tools.
- Complement insufficient functions with partnerships.

[2] Overseas segment

- Obtain partners in strategic areas, namely North America and Europe.
- Localize management and engineering.
- Develop technology to meet local needs.

(3) Speed-up of Business Management and Reinforcement of Corporate Governance

To speed up decision-making in business strategy, an executive officer system will be introduced, effective June 22, 2015.

Along with this, the system of board of directors and auditors will strengthen supervision over business execution and enhance the efficiency of the management system. This agenda will be taken up with the regular general shareholders meeting scheduled for June 22, 2015.

(4) Strategic Investment

Strategic investments in the range of a total of 20 billion yen over three years will be made to realize the previously mentioned measures: to expand the engineering domain, to invest mainly in complementing insufficient functions with partners, to develop our unique differentiated technology, and to invest in a shift to a broader area and R&D activities including the development of asset management tools.

(5) Continuing CSR Activities

The Group will make efforts to promote credibility and transparency in its business management, strengthen compliance systems and internal control functions, and conduct honest and fair information disclosure in a timely and appropriate manner. The Group will contribute to society through business activities while engaging in social contribution activities and environmental preservation initiatives continuously as a corporate citizen. In addition, the Group will take measures against various risks that may raise serious concerns about its business operations and initiatives for business continuation.

Forward-looking statement

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.