

This English translation of the financial report was prepared for reference purposes only and is qualified in its entirety by the original Japanese version. The financial information contained in this report is derived from our unaudited consolidated financial statements appearing in item 2 of this report.

ARTERIA Networks Corporation Consolidated Financial Report For the Fiscal Year Ended March 31, 2019 [IFRS]

May 14, 2019

Company name	ARTERIA Networks Corporation	Stock listing: Tokyo Stock Exchange – First Section
Stock ticker	4423	URL https://www.arteria-net.com
Representative (Position)	Representative Director, President & CEO	(Name) Koji Kabumoto
Name of contact (Position)	Director CFO and Managing Executive Officer	(Name) Seiichi Tateishi TEL 03 (6823) 0349
Scheduled date of AGM:	June 27, 2019	
Scheduled date of filing:	June 28, 2019	
Scheduled date of dividend payment:	June 28, 2019	
Supplemental results materials:	Yes	
Earnings results briefing:	Yes (For institutional investors, security analysts)	

(Millions of yen; amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results For the Fiscal Year Ended March 31, 2019 (April 1, 2018 – March 31, 2019, “the fiscal year”)

(1) Consolidated Operating Results

(Percentages are shown as year-on-year changes)

	Net sales		Operating profit		Profit before income taxes		Profit		Profit attributable to owners of the parent		Comprehensive income	
		%		%		%		%		%		%
Fiscal Year ended March 31, 2019	49,219	3.4	7,358	(2.5)	6,879	(3.7)	4,922	0.2	4,570	(0.9)	4,987	1.7
Fiscal Year ended March 31, 2018	47,587	-	7,549	-	7,146	-	4,912	-	4,610	-	4,901	-

	Basic earnings per share	Diluted earnings per share	Ratio of profit to equity, attributable to owners of the parent	Ratio of profit before income taxes to total assets	Ratio of operating income to net sales
	Yen	Yen	%	%	%
Fiscal Year ended March 31, 2019	91.42	-	32.2	8.6	15.0
Fiscal Year ended March 31, 2018	92.21	-	50.9	9.3	15.9

(Reference)

Income on equity method investments

Fiscal year ended March 31, 2019 - million yen

Fiscal year ended March 31, 2018 - million yen

Note

The Company conducted a stock split of 5 shares for each share of common stock with an effective date of September 28, 2018. Basic earnings per share is calculated based on the assumption that the stock split had been conducted at the beginning of the previous fiscal year.

(Reference)

(Percentages are shown as year-on-year changes)

	Adjusted operating profit		Adjusted profit before income taxes		Adjusted profit attributable to owners of the parent		Adjusted EBITDA	
		%		%		%		%
Fiscal Year ended March 31, 2019	7,919	2.4	7,440	1.5	4,959	4.7	14,895	2.2
Fiscal Year ended March 31, 2018	7,735	-	7,332	-	4,739	-	14,575	-

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of the parent	Ratio of equity attributable to owners of the parent to total assets	Equity per share attributable to owners of the parent
As of March 31, 2019	81,989	18,549	16,508	20.1	330.18
As of March 31, 2018	78,560	13,972	11,872	15.1	237.45

Note

The Company conducted a stock split of 5 shares for each share of common stock with an effective date of September 28, 2018. Equity per share attributable to owners of the parent is calculated based on the assumption that the stock split had been conducted at the beginning of the previous fiscal year.

(3) Consolidated Cash flows

	Operating activities	Investing activities	Financing activities	Cash and cash equivalents at the end of the year
As of March 31, 2019	10,662	(5,407)	(3,244)	9,288
As of March 31, 2018	11,900	(6,914)	(2,847)	7,278

2. Dividends

	Dividends per share				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2018	-	0.00	-	0.00	-
Fiscal year ended March 31, 2019	-	0.00	-	26.22	26.22
Fiscal year ending March 31, 2020 (forecasted)	-	-	-	51.20	51.20

	Total amount of dividends	Payout ratio (Consolidated)	Ratio of dividend to equity attributable to owners of the parent (Consolidated)
Fiscal year ended March 31, 2018	-	-	-
Fiscal year ended March 31, 2019	1,310	28.7	9.2
Fiscal year ending March 31, 2020 (forecasted)		50.0	

Note

If the company is unable to receive an audit opinion from its accounting auditor prior to the commencement of the Annual General Shareholders Meeting (“AGM”), the dividend resources for the fiscal year ended March 31, 2019 include the capital surplus.

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2020 (April 1, 2019 to March 31, 2020)

(Percentages are shown as year-on-year changes)

	Net sales		Operating profit		Profit before income taxes		Profit		Profit attributable to owners of the parent		Basic earnings per share
		%		%		%		%		%	Yen
Fiscal year ending March 31, 2020	50,778	3.2	8,372	13.8	7,912	15.0	5,485	11.4	5,119	12.0	102.40

* Notes

(1) Changes in significant consolidated subsidiaries (which resulted in changes in scope of consolidation) during the fiscal year ended March 31, 2019: None

(2) Changes in accounting policies and estimates

(i) Changes in accounting policies required under IFRS: Yes

(ii) Other changes in accounting policies: None

(iii) Changes in accounting estimates: None

Note

For details refer to Changes in accounting policies on P.15.

(3) Number of outstanding shares (Common stock)

(i) Number of shares outstanding (including treasury stock)

As of March 31, 2019	50,000,000 Shares	As of March 31, 2018	50,000,000 Shares
As of March 31, 2019	61 Shares	As of March 31, 2018	- Shares
As of March 31, 2019	49,999,991 Shares	As of March 31, 2018	50,000,000 Shares

(ii) Number of treasury stock

(iii) Number of weighted average common stock outstanding

Note

The Company conducted a stock split of 5 shares for each share of common stock with an effective date of September 28, 2018. The number of shares outstanding (including treasury stock) and number of weighted average common stock outstanding are calculated based on the assumption that the stock split had been conducted at the beginning of the previous fiscal year.

* This consolidated financial report is not subject to review procedures by certified public accountants or an audit firm.

* Regarding appropriate use of forecasts and other special notes

As disclosed in our press release issued on April 22, 2019 “Notice Regarding Establishment of Third-Party Committee” depending on the outcome of the Third-party Committee's ongoing investigation there is a possibility that our earnings results for the fiscal year ended March 31, 2019 may be impacted.

* Regarding appropriate use of forecasts

This report contains statements that constitute forward-looking statements including estimations, forecasts targets and plans. Such forward-looking statements do not represent any guarantee by the Company of future performance. Our actual results may vary materially from those we currently anticipate. Any forward-looking statements in this report are based on the current assumptions and beliefs of the Company in light of the information currently available to it, and involve known and unknown risks, uncertainties and other factors. Regarding the use and definition of forecasts please refer to “Forecasts” under “1. Qualitative Information.”

Regarding (Reference) information

- (1) Adjusted operating profit = operating profit + IPO preparation expenses
- (2) Adjusted profit before income taxes = profit before income taxes + IPO preparation expenses
- (3) Adjusted profit for the year attributable to owners of the parent = profit for the year attributable to owners of the parent + IPO preparation expenses – income taxes adjustment
- (4) Adjusted EBITDA = profit + income taxes – finance income + finance costs + depreciation and amortization + loss on disposal of supplies and equipment installed at customers' premises + IPO preparation expenses
- (5) IPO preparation expenses consist of expenses incurred in preparing for our IPO that are not expected to recur. Such expenses include fees paid to accounting and other advisors in connection with preparation for our IPO and are included as part of IPO related costs.
- (6) Income taxes adjustments consist of income taxes attributable to the increase in taxable income due to the adjustment for IPO preparation expenses
- (7) Loss on disposal of supplies and equipment installed at customers' premises consist of such losses recorded as part of cost of sales and other expense in our consolidated statement of income.
- (8) Adjusted operating profit, adjusted net income, adjusted net income for the year attributable to the owners of the parent, adjusted EBITDA are not prepared in accordance with article 193-2 (1) of the Financial Instruments and Exchange Act of Japan and have not been audited or reviewed by the Company's independent auditors.
- (9) Adjusted operating profit, adjusted net income, adjusted net income for the year attributable to the owners of the parent and adjusted EBITDA reflect some expenses incurred in preparing for our IPO that are not expected to recur after the completion of our IPO and do not reflect the underlying performance of our business. These non-IFRS measures are supplemental financial measures that we believe are useful for investors to assess the operating performance and profitability of our business.
- (10) Adjusted operating profit, adjusted net income, adjusted net income for the year attributable to the owners of the parent and adjusted EBITDA exclude certain items which impact profit. These non-IFRS measures should not be considered in isolation or as a substitute for the most comparable financial measures presented in accordance with IFRS. These indices are meant to be illustrative only and are calculated based on assumptions which might differ from those used by other companies and should therefore not be used as a basis for comparison.

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1. Qualitative Information / Consolidated Financial Statements, etc.

(1) Operational Results

While there were some signs of weakness in export and production during the fiscal year, the Japanese economy is expected to follow a gradual recovery trend driven by factors such as improvement in the employment and income environment. However, concerns remain over the impact on the domestic economy of factors such as the trade issues, uncertainty around the global economy and the volatility of the financial markets.

In the information and telecommunications market, where the Group operates, dramatic changes in the level of convenience in people's lives and in the productivity of every industry are occurring with the spread of artificial intelligence (AI), the internet of things (IoT), online video consumption, cloud-based services, 5G, and so forth. The market is expected to expand going forward as data traffic increases. Furthermore, the information and telecommunications business is to play a more important role in society, including strengthening security against increasingly advanced and sophisticated cyberattacks and operating social systems that enable people to live securely.

In this business environment, we will continue to lever our strengths in internet services, network services and condominium internet services and focus our management resources in areas where we expect high growth to expand the provision of services.

In internet services, we added 3 new 10Gbps interface options (2.5Gbps/5Gbps/10Gbps) to our ARTERIA Hikari Internet Access service lineup. We provide either optical or metal 10Gbps compatible network terminating units; this allows customers to change their interface freely depending on changes in their environment.

In network services, we added up/downlink 1Gbps/10Mbps bandwidth allocation to the lineup of "burst plan" in our ARTERIA Hikari LC Access offering. ARTERIA Hikari LC Access is a virtual LC service (*) which connects two customers' sites by dedicated Ethernet lines. In this service menu we provide a bandwidth allocation type service called the burst plan. We have added an affordable up/downlink 1Gbps/10Mbps bandwidth allocation menu in response to requests received from our customers.

In condominium internet services, sales of 1Gbps and 10Gbps building-wide internet services to condominiums continued to expand. Orders to lay optical fiber in large newly developed condominium buildings increased and the rollout of this service in a university dormitory is also ongoing. Orders in the rental market space also increased.

As disclosed in our press release issued on April 16, 2019 "Potential Violation of the Antimonopoly Act" we identified that our company and our subsidiary, TSUNAGU NETWORK COMMUNICATIONS INC. ("TNC"), may have engaged in certain conduct (the "Conduct") with competitors of TNC that may potentially have been in violation of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade (the "Antimonopoly Act"). Accordingly, the company has accrued an estimated amount of 379 million yen as a provision for levies etc. relating to the Antimonopoly Act this fiscal year. For details refer to 1. Qualitative Information (5) Forecasts.

We have also recorded 560 million yen in IPO and other related one-time costs in the fiscal year as a result of our listing on the Tokyo Stock Exchange, Inc. ("TSE") on December 12, 2018.

As a result, during the fiscal year net sales increased by 1,631 million yen (3.4%) year on year to 49,219 million yen; operating income decreased by 190 million yen (2.5%) year on year to 7,358 million yen; profit before income taxes for the fiscal year decreased by 266 million yen (3.7%) year on year to 6,879 million yen. Profit increased by 9 million yen (0.2%) year on year to 4,922 million yen.

(*) Virtual LC service (Virtual leased circuit service): Point To Point, this is a layer 2 Ethernet leased circuit service.

(2) Financial Position

	March 31, 2018	March 31, 2019	Change
Total assets (millions of yen)	78,560	81,989	3,428
Total equity (millions of yen)	13,972	18,549	4,577
Equity attributable to owners of the parent (millions of yen)	11,872	16,508	4,636
Ratio of equity attributable to owners of the parent (%)	15.1	20.1	5.0
Balance of borrowings (millions of yen)	43,751	41,694	(2,056)
Debt equity ratio	3.9	2.7	(1.2)
Leverage ratio	2.7	2.4	(0.3)

During the fiscal year, total assets increased by 3,428 million yen from the end of the previous fiscal year, to 81,989 million yen. Equity attributable to owners of the parent increased by 4,636 million yen year on year, to 16,508 million yen, due to an increase in retained earnings. As a result, the ratio of equity attributable to owners of the parent amounted to 20.1%. The balance of borrowings decreased by 2,056 million yen year on year, to 41,694 million yen, as a result of a prepayment according to a Sweep Excess Cash clause.

(3) Overview of Cash Flows

During the fiscal year, the balance of cash and cash equivalents increased by 2,010 million yen year on year, to 9,288 million yen.

(Cash flows from operating activities)

An increase in income taxes paid and other payables resulted in a decrease of 1,237 million yen year on year in cash generated by operating activities, to 10,662 million yen.

(Cash flows from investing activities)

As a result of acquiring fixed assets at the efficient investment timing according to the investment plans, cash used for investing activities decreased by 1,506 million yen year on year, to 5,407 million yen.

Consequently, free cash flow (*) in the fiscal year increased by 269 million yen year on year to 5,255 million yen cash generated.

(Cash flows from financing activities)

Cash used for financing activities increased by 397 million yen year on year, to 3,244 million yen, due to an increase in repayments of long-term borrowings while repayments of lease obligations decreased.

* Free cash flow: cash flows from operating activities + cash flows from investing activities.

(4) Basic Policy Regarding Distribution of Profits and Dividends for the Fiscal Year Ended March 31, 2019

Our basic policy for dividend distributions is to provide stable dividends while retaining internal reserves for increasing our corporate value and strengthening our competitiveness.

As announced in our press release dated May 14, 2019 titled “Notice Regarding a Decrease in the Amount of Capital Reserve” and described in (5) Forecasts, the fact-finding investigation by the Third-Party Committee concerning the circumstances of the Conduct is a prerequisite for the accounting audit of financial statements, etc. for the term ended March 31, 2019 by Ernst & Young ShinNihon LLC our company's accounting auditor. If we are unable to receive an accounting audit report including an unqualified opinion from our accounting auditor prior to the commencement of the AGM, we will pay dividends from capital surplus to our shareholders provided that the proposal for the Decreasing of the Capital Reserve is approved at the AGM. However, if we receive an accounting audit report including an unqualified opinion from our accounting auditor prior to the commencement of the AGM, and there is no opinion that the method or results of auditing by the accounting auditor are inappropriate as the contents of the audit report of our company's Board of Auditors concerning the said accounting audit report, we will withdraw the proposal for the Decreasing of the Capital Reserve to be proposed in the AGM, and pay the above dividends from retained earnings.

(5) Forecasts

The information and telecommunications market is expected to continue expanding as data traffic increases. We also envision growing needs and requests to strengthen security against increasingly advanced and sophisticated cyberattacks.

We aim to expand our offering of high quality services such as the offering of 10G lines in internet services and to enhance our offerings in security and other value added services in the network business. In condominium internet services we aim to offer high quality services such as 10G lines and “All Hikari,” while continuing our efforts in the rental market. Based on this, we forecast that net sales will amount to 50,778 million yen in the fiscal year ending March 31, 2020. In addition to the increase in net sales, operating profit and profit attributable to owners of the parent are forecasted to amount to 8,372 million yen and 5,119 million yen respectively due to the absence of the IPO related and other costs which were recorded in the fiscal year.

As disclosed in our press release issued on April 16, 2019 “Potential Violation of the Antimonopoly Act” we identified that our company and our subsidiary TNC may have engaged in the Conduct with competitors of TNC. We were approved for the initial listing of our shares on November 13, 2018 by TSE, and were listed on the first section of TSE on December 12, 2018. In the Securities Registration Statement dated November 13, 2018, (the “Application Documents”), we provided a general risk statement that, if we were unable to comply with the Antimonopoly Act and other regulations, our group's activities may be restricted and we may incur increased costs. However, the Conduct was not included in the Application Documents.

We are acutely aware that the response to this matter was inadequate, and we will take measures to prevent similar occurrences in the future, such as ensuring sufficient information and communication between departments, enhanced awareness of compliance through education for officers and employees on the Financial Instruments and Exchange Law and other laws and regulations, the expansion of the human resources and the organizational structure of our administrative departments, and rebuilding our governance structure including the acceptance of temporary transferees from our parent company.

We take this incident very seriously and both our legal counsel and outside counsel, who do not have an advisory relationship with our company, were conducting investigations to clarify this matter. However, in order to conduct more objective investigations, we have established a Third-Party Committee, comprising solely of fair and impartial outside counsel who do not have any interests in our company, which is conducting its investigation and is scheduled to deliver a report in mid-June.

Currently there is no significant impact of the potential violation of the Antimonopoly Act on our operating activities. However, depending on the stance of the authorities there is a possibility that the earnings results for the fiscal year ending March 31, 2020 will be impacted.

(6) Significant Matters about Going Concern Assumption

None

2. Consolidated Financial Statements

(1) Consolidated Statement of Financial Position

	Previous fiscal year (March 31, 2018)	Current fiscal year (March 31, 2019)
	Millions of yen	Millions of yen
Assets		
Current assets		
Cash and cash equivalents	7,278	9,288
Trade and other receivables	6,183	6,608
Other financial assets	54	30
Inventories	202	366
Income and other taxes receivables	-	200
Other current assets	1,236	1,348
Total current assets	14,954	17,842
Non-current assets		
Property, plant and equipment	29,119	30,654
Goodwill	12,646	12,646
Intangible assets	16,971	16,214
Other financial assets	2,751	2,872
Deferred tax assets	1,507	1,180
Other non-current assets	609	578
Total non-current assets	63,605	64,146
Total assets	78,560	81,989

	Previous fiscal year (March 31, 2018)	Current fiscal year (March 31, 2019)
	Millions of yen	Millions of yen
Liabilities and Equity		
Liabilities		
Current liabilities		
Borrowings	1,332	1,634
Trade and other payables	4,169	5,240
Other financial liabilities	872	748
Income and other taxes payable	1,648	826
Provisions	3	381
Other current liabilities	4,438	4,241
Total current liabilities	12,464	13,072
Non-current liabilities		
Borrowings	42,418	40,060
Other financial liabilities	1,650	2,827
Retirement benefit liabilities	445	598
Provisions	2,922	2,797
Deferred tax liabilities	3,103	2,880
Other non-current liabilities	1,584	1,203
Total non-current liabilities	52,124	50,367
Total liabilities	64,588	63,439
Equity		
Common stock	5,150	5,150
Capital surplus	5,883	5,883
Retained earnings	953	5,504
Treasury Stock	-	(0)
Other components of equity	(114)	(28)
Total equity attributable to owners of the parent	11,872	16,508
Non-controlling interests	2,099	2,040
Total equity	13,972	18,549
Total liabilities and equity	78,560	81,989

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

	Previous fiscal year (From April 1, 2017 to March 31, 2018)	Current fiscal year (From April 1, 2018 to March 31, 2019)
	Millions of yen	Millions of yen
Net sales	47,587	49,219
Cost of sales	32,391	33,348
Gross profit	15,196	15,870
Selling, general and administrative expenses	7,337	7,362
Other income	113	56
Other expenses	422	1,205
Operating profit	7,549	7,358
Finance income	33	33
Finance costs	436	512
Profit for the period before income taxes	7,146	6,879
Income taxes	2,234	1,957
Profit for the period	<u>4,912</u>	<u>4,922</u>
Profit for the period attributable to:		
Owners of the parent	4,610	4,570
Non-controlling interests	301	351
Profit for the period	<u>4,912</u>	<u>4,922</u>
Earnings per share		
Basic earnings per share (yen)	92.21	91.42
Diluted earnings per share (yen)	-	-

(Consolidated Statement of Comprehensive Income)

	Previous fiscal year (From April 1, 2017 to March 31, 2018)	Current fiscal year (From April 1, 2018 to March 31, 2019)
	Millions of yen	Millions of yen
Profit for the period	4,912	4,922
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	16	85
Remeasurements of defined benefit plan	(26)	(19)
Total items that will not be reclassified to profit or loss	(10)	65
Total other comprehensive income, net of tax	(10)	65
Comprehensive income for the period	4,901	4,987
Comprehensive income for the period attributable to:		
Owners of parent	4,599	4,636
Non-controlling interests	301	351
Comprehensive income for the period	4,901	4,987

(3) Consolidated Statement of Changes in Equity

	Equity attributable to owners of the parent					
	Common stock	Capital surplus	Retained earnings	Treasury Stock	Other components of equity	
					Financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plan
Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	
As of April 1, 2017	5,150	4,849	(3,630)	-	(130)	-
Profit for the year	-	-	4,610	-	-	-
Other comprehensive income	-	-	-	-	16	(26)
Comprehensive income for the year	-	-	4,610	-	16	(26)
Transfer to retained earnings	-	-	(26)	-	-	26
Purchase of Treasury Stock	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-
Changes in interests in a subsidiary	-	1,033	-	-	-	-
Total transactions with owners	-	1,033	(26)	-	-	26
As of March 31, 2018	5,150	5,883	953	-	(114)	-
Profit for the year	-	-	4,570	-	-	-
Other comprehensive income	-	-	-	-	85	(19)
Comprehensive income for the year	-	-	4,570	-	85	(19)
Transfer to retained earnings	-	-	(19)	-	-	19
Purchase of Treasury Stock	-	-	-	(0)	-	-
Cash dividends	-	-	-	-	-	-
Changes in interests in a subsidiary	-	-	-	-	-	-
Total transactions with owners	-	-	(19)	(0)	-	19
As of March 31, 2019	5,150	5,883	5,504	(0)	(28)	-

	Equity attributable to owners of the parent			
	Other components of equity	Total	Non-controlling interests	Total
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
As of April 1, 2017	(130)	6,239	3,302	9,541
Profit for the year	-	4,610	301	4,912
Other comprehensive income	(10)	(10)	-	(10)
Comprehensive income for the year	(10)	4,599	301	4,901
Transfer to retained earnings	26	-	-	-
Purchase of Treasury Stock	-	-	-	-
Cash dividends	-	-	(404)	(404)
Changes in interests in a subsidiary	-	1,033	(1,099)	(66)
Total transactions with owners	26	1,033	(1,504)	(470)
As of March 31, 2018	(114)	11,872	2,099	13,972
Profit for the year	-	4,570	351	4,922
Other comprehensive income	65	65	-	65
Comprehensive income for the year	65	4,636	351	4,987
Transfer to retained earnings	19	-	-	-
Purchase of Treasury Stock	-	(0)	-	(0)
Cash dividends	-	-	(409)	(409)
Changes in interests in a subsidiary	-	-	-	-
Total transactions with owners	19	(0)	(409)	(409)
As of March 31, 2019	(28)	16,508	2,040	18,549

(4) Consolidated Statement of Cash Flows

	Previous fiscal year (From April 1, 2017 To March 31, 2018)	Current fiscal year (From April 1, 2018 To March 31, 2019)
	Millions of yen	Millions of yen
Cash flows from operating activities		
Profit for the period before income taxes	7,146	6,879
Depreciation and amortization	6,661	6,715
Finance income	(33)	(33)
Finance costs	436	512
Loss on disposal of property, plant and equipment	54	115
(Increase) decrease in trade and other receivables	(587)	(551)
(Increase) decrease in inventories	(94)	(449)
Increase (decrease) in trade and other payables	(167)	243
Other	730	165
Subtotal	<u>14,146</u>	<u>13,597</u>
Interest received	0	0
Interest paid	(336)	(355)
Income taxes paid	(1,910)	(2,578)
Net cash provided by (used in) operating activities	<u>11,900</u>	<u>10,662</u>
Cash flows from investing activities		
Purchases of property, plant and equipment	(7,203)	(4,786)
Proceeds from sale of property, plant and equipment	1,018	126
Disposals of property, plant and equipment	(133)	(193)
Purchases of intangible assets	(362)	(323)
Other	(234)	(231)
Net cash (used in) provided by investing activities	<u>(6,914)</u>	<u>(5,407)</u>
Cash flows from financing activities		
Repayments of long-term borrowings	(1,028)	(1,986)
Repayments of lease obligations	(1,297)	(972)
Dividends paid to non-controlling interests	(404)	(409)
Payment for purchase of interest in subsidiary from non-controlling interests	(95)	-
Proceeds from sale and leaseback	-	327
Purchase of Treasury Stock	-	(0)
Other	(21)	(203)
Net cash provided by (used in) financing activities	<u>(2,847)</u>	<u>(3,244)</u>
Net increase (decrease) in cash and cash equivalents	<u>2,137</u>	<u>2,010</u>
Cash and cash equivalents at the beginning of the period	<u>5,140</u>	<u>7,278</u>
Cash and cash equivalents at the end of the period	<u><u>7,278</u></u>	<u><u>9,288</u></u>

(5) Notes to Consolidated Financial Statements

(Going Concern Assumption)

Not applicable.

(Changes in accounting policies)

Accounting policies applied to the consolidated financial statements of the current fiscal year are the same as the accounting policies applied to the consolidated financial statements of the previous fiscal year, except as explained in the following paragraph.

The Group has applied IFRS 15 Revenue from Contracts with Customers (“IFRS 15”) from the beginning of the fiscal year ended March 31, 2019. The new standard replaces IAS 18 Revenue and IAS 11 Accounting for Construction Contracts. IFRS 15 provides a comprehensive framework for determining the amount and timing of net sales from contracts with customers, including the presentation of financial statements.

The core principle of the Standard is that revenue is recognized as the amount of the consideration reflecting the value gained in exchange of goods or services that are transferred based on an agreement with a customer.

The objective of the Standard is to recognize revenue based on the five-step approach described below.

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

(a) Impact of the application of the Standard on the Group

The Group mainly provides internet services, network services and condominium internet services. Net sales from the provision of these services is recognized when the Group performs its obligations based on the contracts with customers. The application of the Standard does not have any significant impact on the Group’s results of operations and financial position.

(b) Method of transition

Upon application of the Standard, the Group has adopted the transitional provisions to recognize the cumulative effect of applying the standard as an adjustment to the beginning balance of retained earnings at the date of initial application. There was no impact on the current consolidated financial statements as a result of adopting such method.

(Accounting Estimates and Judgements involving Estimates)

In preparing the consolidated financial statements in accordance with IFRSs, management is required to make judgments, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. By the nature of the estimates or assumptions, however, actual results may differ from those estimates and assumptions.

The estimates and underlying assumptions are reviewed on an ongoing basis. The effect of any changes in accounting estimates is recognized in the period in which the estimates are changed.

(Segment Information)

(a) Overview of reportable segments

The Group is mainly engaged in the provision of internet services (optical internet connection services, etc.), network services (leased circuit services, VPN connection services, etc.), and condominium internet services (building-wide condominium internet service, etc.) in a single operating segment of telecommunications business based on the Telecommunications Business Act.

The outline of each line of service is as follows:

- Optical internet connection services: This service includes high-speed data transmission by using optical fibers for access lines. The Group provides proprietary, high-quality service.
- Leased circuit services: This is a service which connects two specific locations and is characterized by high reliability, quality and security. The Group has a competitive advantage in terms of its ability to provide high-performance connections within Tokyo and between Tokyo, Nagoya, Osaka, and Fukuoka.
- VPN connection services: This is a private network service that configures a virtual communication tunnel among users connected to the internet. The Group offers a comprehensive, one-stop service from design to maintenance using various access lines.

- Building-wide condominium internet service: As an internet connection service for individual users, the Group provides this connection service for which all the condominium residents sign a contract with a service provider.

(b) Net sales and other operating results by segment

The Group is engaged in a single business segment providing telecommunications services.

(c) Information on products and services

Net sales to external customers by product and service are as follows:

	Previous fiscal year (From April 1, 2017 to March 31, 2018)	Current fiscal year (From April 1, 2018 to March 31, 2019)
	Millions of yen	Millions of yen
Internet services	20,299	20,721
Network services	13,280	13,881
Condominium internet services	10,450	10,947
Others	3,557	3,668
Total	47,587	49,219

(Earnings per Share)

The calculation basis for basic earnings per share is as follows:

	Previous fiscal year (From April 1, 2017 To March 31, 2018)	Current fiscal year (From April 1, 2018 To March 31, 2019)
Profit attributable to owners of the parent (Millions of yen)	4,610	4,570
Average number of shares of common stock during the period (shares)	50,000,000	49,999,991
Basic earnings per share (yen)	92.21	91.42

Notes:

1. Diluted earnings per share are not calculated as there are no potential dilutive shares.
2. The Company conducted a stock split of 5 shares for each share of common stock with an effective date of September 28, 2018.

The amounts of basic earnings per share were calculated based on the assumption that the stock split had been conducted at the beginning of the previous fiscal year.

(Significant subsequent events)

Not applicable.