

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 Three-month Period Ended June 30, 2020 [IFRS]

August 14, 2020

Company name	ARTERIA Networks Corporation	Stock listing: Tokyo Stock Exchange – First Section
Stock ticker	4423	URL <a href="https://www.arteria-net.com/">https://www.arteria-net.com/</a>
Representative (Position)	Representative Director, President & CEO	(Name) Koji Kabumoto
Name of contact (Position)	Managing Executive Officer & CFO	(Name) Seiichi Tateishi TEL 03 (6823) 0349
Schedule date of quarterly report filing:	August 14, 2020	
Scheduled date of dividend payment:	-	
Supplemental quarterly results materials:	None	
Earnings results briefing:	None	

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

### 1. Consolidated Financial Results For the Three-month Period Ended June 30, 2020 (April 1, 2020 – June 30, 2020, “the first quarter”)

#### (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	
		%		%		%		%		%		%
Three-month period ended June 30, 2020	12,837	1.6	2,125	7.1	2,055	8.7	1,432	8.8	1,341	8.9	1,495	5.9
Three-month period ended June 30, 2019	12,631	7.4	1,985	20.3	1,891	22.4	1,316	17.2	1,231	19.1	1,411	16.8

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three-month period ended June 30, 2020	26.83	-
Three-month period ended June 30, 2019	24.62	-

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

	Adjusted EBITDA	
		%
Three-month period ended June 30, 2020	4,372	9.7
Three-month period ended June 30, 2019	3,987	12.3

#### (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
As of June 30, 2020	87,166	21,038	19,386	% 22.2
As of March 31, 2020	90,779	22,706	20,709	22.8

## 2. Dividends

	Dividends per share				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2020	-	-	-	52.97	52.97
Fiscal year ending March 31, 2021	-				
Fiscal year ending March 31, 2021 (forecasted)		-	-	54.01	54.01

Note

Revision of forecasted dividend: None

## 3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2021 (April 1, 2020 to March 31, 2021)

(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, 2021	52,235	1.4	8,854	2.1	8,374	2.0	5,777	1.9	5,401	2.0	108.02

Note

Revision of forecast: None

\* Notes

(1) Changes in significant consolidated subsidiaries (which resulted in changes in scope of consolidation) during the three-month period ended June 30, 2020: None

(2) Changes in accounting policies and estimates

- (i) Changes in accounting policies required under IFRS: None
- (ii) Other changes in accounting policies: None
- (iii) Changes in accounting estimates: None

(3) Number of outstanding shares (Common stock)

(i) Number of shares outstanding (including treasury stock)	As of June 30, 2020	50,000,000 Shares	As of March 31, 2020	50,000,000 Shares
(ii) Number of treasury stock	As of June 30, 2020	39,761 Shares	As of March 31, 2020	61 Shares
(iii) Number of weighted average common stock outstanding	As of June 30, 2020	49,994,704 Shares	As of June 30, 2019	49,999,939 Shares

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

\* Regarding appropriate use of forecasts and other special notes

#### 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 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
- (2) 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.
- (3) 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.
- (4) Adjusted EBITDA is not prepared in accordance with article 193-2 (1) of the Financial Instruments and Exchange Act of Japan and has not been audited or reviewed by the Company’s independent auditors.
- (5) Adjusted EBITDA reflects 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.
- (6) Adjusted EBITDA excludes certain items which impacts 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

During the first quarter as a result of the global spread of the COVID-19 pandemic, concerns of infection led people to refrain from nonessential outings, this impacted the production activities and consumer spending in a variety of industries leading to a sluggish economy. Although upon the lift of the state of emergency the Japanese economy has restarted, capital expenditure trends and the employment environment remain weak. Concerns related to the future global and domestic spread of COVID-19 and the movement of the financial markets remain and will need to be monitored.

In the information and telecommunications market, where the Group operates, we have seen a slowdown in corporate activities and, more recently, postponement of capital expenditure as a result of COVID-19 related counter measures. On the other hand, increased use of ICT tools, which allow users to work anywhere and anytime while telecommuting or in satellite offices, has enhanced the importance of the information industry in society even further.

In this business environment, the government issued several “requests to refrain from nonessential outings” resulting in some of our customers postponing or curbing their capital expenditures, which has started to affect our sales operations.

However, our healthy order inventory from the previous fiscal year and no delays in network equipment delivery or start of billing delays materializing during this quarter contributed to the absence of any significant COVID-19 related impact on our results during the first quarter. Sales of core services in each of our main business areas grew steadily year on year.

On the other hand, as a result of the restraining requests issued in April, telecommuting has suddenly expanded leading to some congestion on the networks we provide interconnection with. In order to address these issues, we implemented countermeasures including infrastructure expansion which resulted in a year-on-year increase in cost of sales during the first quarter.

In internet services against the backdrop of traffic increase, demand for our high-quality broadband internet services, mainly driven by the continued expansion of cloud usage, remains strong and orders for our best effort basis maximum 10Gbps (uplink and downlink) service are sustaining a stable trend. We continue to expand the service areas for our Arteria Hikari service and, in addition to Tokyo and Osaka, we added Nagoya to our line up in June 2020.

In ISP services we entered the VNE\*<sup>1</sup> market in April 2020, enabling the provision of a higher quality service. Due to the expansion of telecommuting the demand for higher quality ISP services is increasing and we are receiving a great number of inquiries and orders from our OEM Flet’s partners and corporate customers.

In network services, due to the spread of COVID-19 and restraining requests issued by the government corporate operations have stagnated and we experienced delays in service provision, requests for payment reductions and push back of business opportunities as a result of the postponement of the Olympic Games. Although demand for leased circuits from OTTs\*<sup>2</sup> and mobile operators, who are proactively investing in the build-out of proprietary backbone networks, is still growing year on year the growth rate is decreasing.

In VPN services, although we have realized net sales growth year on year, the growth rate is slowing down due to the above-mentioned reasons. However, due to the expansion of telecommuting the number of VPN service related inquiries is increasing.

In condominium internet services, orders increased in both the owned condo and rental apartments market during the previous fiscal year resulting in a steady sales trend and increased growth rate during the first quarter. While there were some concerns about postponement of service roll out due to infrastructure procurement delays, the impact of this was minor during the first quarter.

The demand for high-quality broadband services driven by more telecommuting has also increased in condominium internet services, leading to more inquiries for our broadband access service up to 10 Gbps using a dedicated fiber line, which we were first to introduce in the market.

In June 2020 we announced a newly developed internet service catering to small to medium sized condos named Five.A. By using the IPv6 compatible next generation service we can provide a comfortable internet environment nationwide. We will aim to expand orders in both medium sized and smaller sized condo buildings.

As a result, during the first quarter net sales increased by 205 million yen (1.6%) year on year to 12,837 million yen. Operating income increased by 140 million yen (7.1%) year on year to 2,125 million yen, profit before income taxes for the period increased by 163 million yen (8.7%) year on year to 2,055 million yen. Profit for the period attributable to owners of the parent increased by 110 million yen (8.9%) year on year to 1,341 million yen.

Notes:

1 Virtual Network Enabler: service provider that offers network facilities and systems required for IPoE connection to internet service providers.

2 Over The Top

## (2) Financial Position

	March 31, 2020	June 30, 2020	Change
Total assets (millions of yen)	90,779	87,166	(3,613)
Total equity (millions of yen)	22,706	21,038	(1,668)
Equity attributable to owners of the parent (millions of yen)	20,709	19,386	(1,323)
Ratio of equity attributable to owners of the parent (%)	22.8	22.2	(0.6)
Balance of borrowings (millions of yen)	40,162	40,185	23

During the first quarter, total assets decreased by 3,613 million yen from the end of the previous fiscal year, to 87,166 million yen. Equity attributable to owners of the parent decreased by 1,323 million yen year on year, to 19,386 million yen. As a result, the ratio of equity attributable to owners of the parent amounted to 22.2%.

### Overview of Cash Flows

During the first quarter, there were no COVID-19 related matters that had a significant impact on our business and the group maintained a stable cash flow. Against this backdrop, the balance of cash and cash equivalents decreased by 101 million yen year on year, to 8,565 million yen.

#### (Cash flows from operating activities)

An increase in income taxes paid resulted in a decrease of 21 million yen year on year in cash generated by operating activities, to 2,684 million yen.

#### (Cash flows from investing activities)

As a result of acquiring fixed assets and intangible assets, cash used for investing activities increased by 1,115 million yen year on year, to 2,726 million yen.

Consequently, free cash flow (\*) in the first quarter decreased by 1,136 million yen year on year to 42 million yen cash used.

#### (Cash flows from financing activities)

Cash used for financing activities increased by 1,673 million yen year on year, to 3,388 million yen, due to payment of dividends and repayment of lease liabilities.

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

### (3) Forecasts

Although the Group experienced some COVID-19 related impact during the first quarter, all of our core services in our main business areas grew year on year. We are however expecting the COVID-19 impact to continue throughout the current fiscal year and forecast impacts, such as postponement and curbing of capital expenditure and requests for payment reductions from our customers, to materialize from the second quarter onwards. It is our view that by creating sales opportunities, driven by traffic increases, and continued efforts in cost of sales control, we will be able to limit the COVID-19 impact within the scope of our forecasts announced at the beginning of the fiscal year. We are therefore reiterating our earnings forecasts, announced in the “Consolidated Financial Report For the Fiscal Year Ended March 31, 2020” disclosed on May 15, 2020, at this point in time. We will announce any necessary future forecast revisions timely depending on the movement of our earnings results.

## 2. Quarterly Condensed Consolidated Financial Statements

### (1) Quarterly Condensed Consolidated Statement of Financial Position

	Previous fiscal year (March 31, 2020)	First quarter of the current fiscal year (June 30, 2020)
	Millions of yen	Millions of yen
Assets		
Current assets		
Cash and cash equivalents	11,996	8,565
Trade and other receivables	6,362	6,031
Other financial assets	10	10
Inventories	151	155
Other current assets	1,526	1,939
Total current assets	20,047	16,701
Non-current assets		
Property, plant and equipment	38,152	38,007
Goodwill	12,646	12,646
Intangible assets	15,362	15,247
Other financial assets	3,012	3,113
Deferred tax assets	821	757
Other non-current assets	735	691
Total non-current assets	70,732	70,465
Total assets	90,779	87,166



	Previous fiscal year (March 31, 2020)	First quarter of the current fiscal year (June 30, 2020)
	Millions of yen	Millions of yen
Liabilities and Equity		
Liabilities		
Current liabilities		
Borrowings	1,938	1,938
Trade and other payables	5,310	4,543
Lease liabilities	2,609	2,575
Income and other taxes payable	1,369	696
Provisions	181	197
Other current liabilities	4,214	4,053
Total current liabilities	15,624	14,004
Non-current liabilities		
Borrowings	38,223	38,247
Long-term lease liabilities	7,146	6,623
Retirement benefit liabilities	718	758
Provisions	2,880	2,897
Deferred tax liabilities	2,668	2,645
Other non-current liabilities	810	950
Total non-current liabilities	52,448	52,123
Total liabilities	68,072	66,128
Equity		
Common stock	5,150	5,150
Capital surplus	4,640	4,640
Retained earnings	10,873	9,566
Treasury stock	(0)	(79)
Other components of equity	46	109
Total equity attributable to owners of the parent	20,709	19,386
Non-controlling interests	1,997	1,652
Total equity	22,706	21,038
Total liabilities and equity	90,779	87,166

(2) Quarterly Condensed Consolidated Statement of Income and Quarterly Condensed Consolidated Statement of Comprehensive Income  
(Quarterly Condensed Consolidated Statement of Income for the three-month period ended June 30)

	For the three-month period ended June 30, 2019 (From April 1, 2019 To June 30, 2019)	For the three-month period ended June 30, 2020 (From April 1, 2020 To June 30, 2020)
	Millions of yen	Millions of yen
Net sales	12,631	12,837
Cost of sales	8,417	8,665
Gross profit	4,214	4,172
Selling, general and administrative expenses	2,214	2,009
Other income	82	23
Other expenses	95	60
Operating profit	1,985	2,125
Finance income	41	55
Finance costs	135	125
Profit for the period before income taxes	1,891	2,055
Income taxes	575	623
Profit for the period	<u>1,316</u>	<u>1,432</u>
Profit for the period attributable to:		
Owners of the parent	1,231	1,341
Non-controlling interests	84	90
Profit for the period	<u>1,316</u>	<u>1,432</u>
Earnings per share		
Basic earnings per share (yen)	24.62	26.83
Diluted earnings per share (yen)	-	-

(Quarterly Condensed Consolidated Statement of Comprehensive Income for the three-month period ended June 30)

	For the three-month period ended June 30, 2019 (From April 1, 2019 To June 30, 2019)	For the three-month period ended June 30, 2020 (From April 1, 2020 To June 30, 2020)
	Millions of yen	Millions of yen
Profit for the period	1,316	1,432
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	95	63
Total items that will not be reclassified to profit or loss	95	63
Total other comprehensive income, net of tax	95	63
Comprehensive income for the period	1,411	1,495
Comprehensive income for the period attributable to:		
Owners of parent	1,326	1,404
Non-controlling interests	84	90
Comprehensive income for the period	1,411	1,495

(3) Quarterly Condensed Consolidated Statement of Changes in Equity  
For the three-month period ended June 30, 2019 (From April 1, 2019 To June 30, 2019)

	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	Total
Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	
As of April 1, 2019	5,150	5,951	5,575	(0)	(28)	(28)
Profit for the period	-	-	1,231	-	-	-
Other comprehensive income	-	-	-	-	95	95
Comprehensive income for the period	-	-	1,231	-	95	95
Cash dividends	-	(1,310)	-	-	-	-
Total transactions with owners	-	(1,310)	-	-	-	-
As of June 30, 2019	5,150	4,640	6,807	(0)	66	66

  

	Equity attributable to owners of the parent		
	Equity attributable to owners of the parent	Non-controlling interests	Total
	Millions of yen	Millions of yen	Millions of yen
As of April 1, 2019	16,647	2,089	18,736
Profit for the period	1,231	84	1,316
Other comprehensive income	95	-	95
Comprehensive income for the period	1,326	84	1,411
Cash dividends	(1,310)	-	(1,310)
Total transactions with owners	(1,310)	-	(1,310)
As of June 30, 2019	16,663	2,174	18,837

For the three-month period ended June 30, 2020 (From April 1, 2020 To June 30, 2020)

	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	Total
Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	
As of April 1, 2020	5,150	4,640	10,873	(0)	46	46
Profit for the period	-	-	1,341	-	-	-
Other comprehensive income	-	-	-	-	63	63
Comprehensive income for the period	-	-	1,341	-	63	63
Purchase of treasury stock	-	-	-	(79)	-	-
Cash dividends	-	-	(2,648)	-	-	-
Total transactions with owners	-	-	(2,648)	(79)	-	-
As of June 30, 2020	5,150	4,640	9,566	(79)	109	109

  

	Equity attributable to owners of the parent	Non-controlling interests	Total
	Millions of yen	Millions of yen	Millions of yen
As of April 1, 2020	20,709	1,997	22,706
Profit for the period	1,341	90	1,432
Other comprehensive income	63	-	63
Comprehensive income for the period	1,404	90	1,495
Purchase of treasury stock	(79)	-	(79)
Cash dividends	(2,648)	(436)	(3,084)
Total transactions with owners	(2,728)	(436)	(3,164)
As of June 30, 2020	19,386	1,652	21,038

(4) Quarterly Condensed Consolidated Statement of Cash Flows

	For the three-month period ended June 30, 2019 (From April 1, 2019 To June 30, 2019)	For the three-month period ended June 30, 2020 (From April 1, 2020 To June 30, 2020)
	Millions of yen	Millions of yen
<b>Cash flows from operating activities</b>		
Profit for the period before income taxes	1,891	2,055
Depreciation and amortization	1,941	2,193
Finance income	(41)	(55)
Finance costs	135	125
Loss on disposal of property, plant and equipment	39	56
Decrease (increase) in trade and other receivables	454	337
(Increase) decrease in inventories	161	(18)
(Decrease) increase in trade and other payables	(250)	(237)
Other	(795)	(543)
Subtotal	3,537	3,914
Interest received	0	0
Dividend income received	33	49
Interest paid	(99)	(89)
Income taxes paid	(766)	(1,190)
Net cash provided by (used in) operating activities	2,705	2,684
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(1,487)	(2,250)
Proceeds from sale of property, plant and equipment	39	-
Disposals of property, plant and equipment	(53)	(95)
Purchases of intangible assets	(104)	(261)
Other	(6)	(119)
Net cash (used in) provided by investing activities	(1,611)	(2,726)
<b>Cash flows from financing activities</b>		
Repayments of lease liabilities	(424)	(665)
Dividends paid	(1,286)	(2,639)
Purchase of treasury stock	-	(79)
Other	(4)	(4)
Net cash (used in) provided by financing activities	(1,714)	(3,388)
Net increase (decrease) in cash and cash equivalents	(621)	(3,431)
Cash and cash equivalents at the beginning of the period	9,288	11,996
Cash and cash equivalents at the end of the period	8,667	8,565

(5) Notes to Consolidated Financial Statements

(Going Concern Assumption)

Not applicable.

(Accounting Estimates and Judgements involving Estimates)

In preparing the consolidated financial statements in accordance with IFRS, 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. 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.

Judgments, estimates and assumptions, which may have a material impact on the amounts recognized in the quarterly condensed consolidated financial statements of the current fiscal year are the same as those for the consolidated financial statements of the previous fiscal year.