

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 Nine-month Period Ended December 31, 2020 [IFRS]

February 12, 2021

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:	February 12, 2021	
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 Nine-month Period Ended December 31, 2020 (April 1, 2020 – December 31, 2020, “the third 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	
		%		%		%		%		%		%
Nine-month period ended December 31, 2020	39,105	2.4	6,345	(4.8)	6,050	(4.4)	4,180	(4.6)	3,909	(4.8)	4,243	(4.8)
Nine-month period ended December 31, 2019	38,185	5.9	6,667	17.4	6,326	18.5	4,383	13.0	4,105	14.7	4,459	12.4

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine-month period ended December 31, 2020	78.21	-
Nine-month period ended December 31, 2019	82.10	-

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

	Adjusted EBITDA	
		%
Nine-month period ended December 31, 2020	13,136	2.1
Nine-month period ended December 31, 2019	12,867	13.0

#### (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 December 31, 2020	86,876	23,802	21,970	25.3
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 nine-month period ended December 31, 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 December 31, 2020	50,000,000 Shares	As of March 31, 2020	50,000,000 Shares
(ii) Number of treasury stock	As of December 31, 2020	13,625 Shares	As of March 31, 2020	61 Shares
(iii) Number of weighted average common stock outstanding	As of December 31, 2020	49,985,139 Shares	As of December 31, 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

The accelerated spread of the COVID-19 pandemic during the third quarter, has significantly affected the global and domestic economy and economic conditions remain tough. Although domestic consumer consumption has shown signs of recovery, capital expenditure has decreased. Towards the end of 2020 COVID-19 cases increased domestically and globally and the future impact of COVID-19 will need to be monitored continuously.

In the information and telecommunications market, where the Group operates, we have seen a sudden slowdown in corporate revenues leading to curbing, postponement, and cancellations of ICT-related capital expenditure as a result of COVID-19.

The promotion of a new workstyle, allowing people to work anywhere and anytime, has driven up the use of telecommuting and satellite offices. This is creating additional needs for high-speed communications and secure network services.

In this business environment, sales of the core services in each of our main business areas continued to grow year on year. However, in certain of our services, we saw a decrease in sales, while expansion of telecommuting led to higher traffic volumes and countermeasure-related costs continued to exceed our forecast. While temporary costs were incurred to sustain communication quality levels and improve customer satisfaction, we will continue our efforts to improve our cost structure.

In internet services, sales for our core products FTTx and ISP services increased year on year.

Driven by increased cloud usage and the promotion of telecommuting generating more external access to corporate networks, the roll out of our best effort basis maximum 10Gbps (uplink and downlink) service is going well. Demand for large bandwidth and high-quality FTTx services remains firm.

In ISP services, orders from our OEM Flet's partners continued to trend upwards. On the other hand, impacted by lower volume of phone calls generated from offices, our IP phone service showed negative growth year on year. We expect this trend to continue for the foreseeable future.

In network services, our customers' operations have been impacted by the spread of COVID-19 and some delays in service provision and requests for payment reductions occurred. We also experienced some delays in opportunities to provide services impacting certain areas of our business due to the postponement of the Olympic Games.

Leased circuit orders were previously sluggish due to COVID-19 but have recently been showing signs of recovery. However, overall corporate activities remain stagnant leading to decreased growth rates.

In VPN services, while we have realized net sales growth year on year, the growth rate is slowing down.

In condominium internet services, comprehensive contracts with large developers and management companies increased and sales in both the owned condo market, and the rental apartments market grew steadily.

Driven by more telecommuting, the demand for high-quality and wide broadband services has also grown recently. We saw an increase in inquiries for our high-quality broadband access service up to 10 Gbps using a dedicated fiber line, which we were first to introduce in the market. We expect to see further future growth in orders and sales for this product.

As a result, during the third quarter net sales increased by 920 million yen (2.4%) year on year to 39,105 million yen. Operating income decreased by 322 million yen ( $\Delta$ 4.8%) year on year to 6,345 million yen, profit before income taxes for the period decreased by 276 million yen ( $\Delta$ 4.4%) year on year to 6,050 million yen. Profit for the period attributable to owners of the parent decreased by 195 million yen ( $\Delta$ 4.8%) year on year to 3,909 million yen.

## (2) Financial Position

	March 31, 2020	December 31, 2020	Change
Total assets (millions of yen)	90,779	86,876	(3,903)
Total equity (millions of yen)	22,706	23,802	1,095
Equity attributable to owners of the parent (millions of yen)	20,709	21,970	1,260
Ratio of equity attributable to owners of the parent (%)	22.8	25.3	2.5
Balance of borrowings (millions of yen)	40,162	39,263	(898)

During the third quarter, total assets decreased by 3,903 million yen from the end of the previous fiscal year, to 86,876 million yen. Equity attributable to owners of the parent increased by 1,260 million yen year on year, to 21,970 million yen. As a result, the ratio of equity attributable to owners of the parent amounted to 25.3%.

### Overview of Cash Flows

During the third 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 2,086 million yen year on year, to 8,518 million yen.

#### (Cash flows from operating activities)

An increase in income taxes paid resulted in a decrease of 545 million yen year on year in cash generated by operating activities, to 9,325 million yen.

#### (Cash flows from investing activities)

As a result of acquiring fixed assets and intangible assets, cash used for investing activities increased by 2,182 million yen year on year, to 6,684 million yen.

Consequently, free cash flow (\*) in the third quarter decreased by 2,727 million yen year on year to 2,641 million yen cash generated.

#### (Cash flows from financing activities)

Cash used for financing activities increased by 2,068 million yen year on year, to 6,119 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 third quarter, all core services in our main business areas sustained year-on-year growth. While we expect the COVID-19 impact to continue throughout the current fiscal year, the trend in new orders and inquiries is improving. Costs related to higher traffic volumes have reached their peak and are expected to decline going forward. However, due to the state of emergency being issued the cost reduction rate has slowed down and needs to be watched closely in the future.

As a Group, we will continue to execute cost control measures as well as a strategic review of our non-core businesses. It is our view that this will enable us 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)	Third quarter of the current fiscal year (December 31, 2020)
	Millions of yen	Millions of yen
Assets		
Current assets		
Cash and cash equivalents	11,996	8,518
Trade and other receivables	6,362	6,776
Other financial assets	10	10
Inventories	151	284
Income and other taxes receivables	-	4
Other current assets	1,526	1,978
Total current assets	20,047	17,572
Non-current assets		
Property, plant and equipment	38,152	37,325
Goodwill	12,646	12,646
Intangible assets	15,362	14,938
Other financial assets	3,012	3,117
Deferred tax assets	821	620
Other non-current assets	735	654
Total non-current assets	70,732	69,303
Total assets	90,779	86,876



	Previous fiscal year (March 31, 2020)	Third quarter of the current fiscal year (December 31, 2020)
	Millions of yen	Millions of yen
Liabilities and Equity		
Liabilities		
Current liabilities		
Borrowings	1,938	2,089
Trade and other payables	5,310	3,703
Lease liabilities	2,609	2,450
Income and other taxes payable	1,369	672
Provisions	181	181
Other current liabilities	4,214	3,999
Total current liabilities	15,624	13,098
Non-current liabilities		
Borrowings	38,223	37,174
Long-term lease liabilities	7,146	5,566
Retirement benefit liabilities	718	834
Provisions	2,880	2,937
Deferred tax liabilities	2,668	2,554
Other non-current liabilities	810	909
Total non-current liabilities	52,448	49,976
Total liabilities	68,072	63,074
Equity		
Common stock	5,150	5,150
Capital surplus	4,640	4,655
Retained earnings	10,873	12,134
Treasury stock	(0)	(79)
Other components of equity	46	109
Total equity attributable to owners of the parent	20,709	21,970
Non-controlling interests	1,997	1,831
Total equity	22,706	23,802
Total liabilities and equity	90,779	86,876

(2) Quarterly Condensed Consolidated Statement of Income and Quarterly Condensed Consolidated Statement of Comprehensive Income  
(Quarterly Condensed Consolidated Statement of Income for the nine-month period ended December 31)

	For the nine-month period ended December 31, 2019 (From April 1, 2019 To December 31, 2019)	For the nine-month period ended December 31, 2020 (From April 1, 2020 To December 31, 2020)
	Millions of yen	Millions of yen
Net sales	38,185	39,105
Cost of sales	25,287	26,651
Gross profit	12,897	12,454
Selling, general and administrative expenses	6,185	6,005
Other income	152	47
Other expenses	196	151
Operating profit	6,667	6,345
Finance income	55	65
Finance costs	396	361
Profit for the period before income taxes	6,326	6,050
Income taxes	1,942	1,870
Profit for the period	4,383	4,180
Profit for the period attributable to:		
Owners of the parent	4,105	3,909
Non-controlling interests	278	270
Profit for the period	4,383	4,180
Earnings per share		
Basic earnings per share (yen)	82.10	78.21
Diluted earnings per share (yen)	-	-

(Quarterly Condensed Consolidated Statement of Comprehensive Income for the nine-month period ended December 31)

	For the nine-month period ended December 31, 2019 (From April 1, 2019 To December 31, 2019)	For the nine-month period ended December 31, 2020 (From April 1, 2020 To December 31, 2020)
	Millions of yen	Millions of yen
Profit for the period	4,383	4,180
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	75	63
Total items that will not be reclassified to profit or loss	75	63
Total other comprehensive income, net of tax	75	63
Comprehensive income for the period	<u>4,459</u>	<u>4,243</u>
Comprehensive income for the period attributable to:		
Owners of parent	4,180	3,972
Non-controlling interests	278	270
Comprehensive income for the period	<u>4,459</u>	<u>4,243</u>

(3) Quarterly Condensed Consolidated Statement of Changes in Equity  
For the nine-month period ended December 31, 2019 (From April 1, 2019 To December 31, 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	-	-	4,105	-	-	-
Other comprehensive income	-	-	-	-	75	75
Comprehensive income for the period	-	-	4,105	-	75	75
Cash dividends	-	(1,310)	-	-	-	-
Total transactions with owners	-	(1,310)	-	-	-	-
As of December 31, 2019	5,150	4,640	9,680	(0)	46	46

  

	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	4,105	278	4,383
Other comprehensive income	75	-	75
Comprehensive income for the period	4,180	278	4,459
Cash dividends	(1,310)	(463)	(1,774)
Total transactions with owners	(1,310)	(463)	(1,774)
As of December 31, 2019	19,516	1,904	21,421

For the nine-month period ended December 31, 2020 (From April 1, 2020 To December 31, 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	-	-	3,909	-	-	-
Other comprehensive income	-	-	-	-	63	63
Comprehensive income for the period	-	-	3,909	-	63	63
Purchase of treasury stock	-	-	-	(79)	-	-
Cash dividends	-	-	(2,648)	-	-	-
Share-based payment transactions	-	15	-	-	-	-
Total transactions with owners	-	15	(2,648)	(79)	-	-
As of December 31, 2020	5,150	4,655	12,134	(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	3,909	270	4,180
Other comprehensive income	63	-	63
Comprehensive income for the period	3,972	270	4,243
Purchase of treasury stock	(79)	-	(79)
Cash dividends	(2,648)	(436)	(3,084)
Share-based payment transactions	15	-	15
Total transactions with owners	(2,712)	(436)	(3,148)
As of December 31, 2020	21,970	1,831	23,802

(4) Quarterly Condensed Consolidated Statement of Cash Flows

	For the nine-month period ended December 31, 2019 (From April 1, 2019 To December 31, 2019)	For the nine-month period ended December 31, 2020 (From April 1, 2020 To December 31, 2020)
	Millions of yen	Millions of yen
Cash flows from operating activities		
Profit for the period before income taxes	6,326	6,050
Depreciation and amortization	6,025	6,626
Finance income	(55)	(65)
Finance costs	396	361
Loss on disposal of property, plant and equipment	129	124
Decrease (increase) in trade and other receivables	297	(413)
Decrease (Increase) in inventories	64	(196)
(Decrease) increase in trade and other payables	(610)	13
Other	(1,147)	(533)
Subtotal	11,427	11,965
Interest received	0	0
Dividend income received	33	49
Interest paid	(283)	(259)
Income taxes paid	(1,307)	(2,431)
Net cash provided by (used in) operating activities	9,870	9,325
Cash flows from investing activities		
Purchases of property, plant and equipment	(4,116)	(5,702)
Proceeds from sale of property, plant and equipment	39	-
Disposals of property, plant and equipment	(158)	(230)
Purchases of intangible assets	(179)	(550)
Other	(86)	(200)
Net cash (used in) provided by investing activities	(4,501)	(6,684)
Cash flows from financing activities		
Repayments of long-term borrowings	(817)	(969)
Repayments of lease liabilities	(1,447)	(1,973)
Dividends paid	(1,309)	(2,647)
Dividends paid to non-controlling interests	(463)	(436)
Purchase of treasury stock	-	(79)
Other	(13)	(13)
Net cash (used in) provided by financing activities	(4,051)	(6,119)
Net increase (decrease) in cash and cash equivalents	1,317	(3,478)
Cash and cash equivalents at the beginning of the period	9,288	11,996
Cash and cash equivalents at the end of the period	10,605	8,518

(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.