

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 3 of this report.

ARTERIA Networks Corporation Consolidated Financial Report For the Three-month Period Ended June 30, 2021 [IFRS]

August 13, 2021

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) Managing Executive Officer & CFO	(Name) Seiichi Tateishi TEL 03 (6823) 0349
Schedule date of quarterly report filing:	August 13, 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 Three-month Period Ended June 30, 2021 (April 1, 2021 – June 30, 2021, “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, 2021	13,071	1.8	2,506	17.9	2,482	20.8	1,649	15.2	1,562	16.5	2,455	64.2
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

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three-month period ended June 30, 2021	31.26	-
Three-month period ended June 30, 2020	26.83	-

(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, 2021	92,708	24,803	23,216	% 25.0
As of March 31, 2021	89,804	25,531	23,608	26.3

2. Dividends

	Dividends per share				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2021	-	0.00	-	55.37	55.37
Fiscal year ending March 31, 2022	-				
Fiscal year ending March 31, 2022 (forecasted)		29.00	-	29.00	58.00

Note

Revision of forecasted dividend: None

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2022 (April 1, 2021 to March 31, 2022)

(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, 2022	54,519	2.2	9,300	4.9	8,929	5.5	6,162	4.5	5,800	4.8	116.03

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, 2021: 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, 2021	50,000,000 Shares	As of March 31, 2021	50,000,000 Shares
(ii) Number of treasury stock	As of June 30, 2021	14,680 Shares	As of March 31, 2021	13,625 Shares
(iii) Number of weighted average common stock outstanding	As of June 30, 2021	49,986,016 Shares	As of June 30, 2020	49,994,704 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.”

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1. Qualitative Information / Consolidated Financial Statements, etc.

(1) Operational Results

The continuous global spread of COVID-19 during the first quarter, has significantly affected the economy and economic conditions remain tough. The state of emergency has been declared for the third time in certain areas of Japan and the future impact of COVID-19 on the domestic and global economy will need to be monitored continuously.

In the information and telecommunications market, where the Group operates, the spread of cloud-based services and increase in telecommuting has accelerated the demand for high-speed communications and secure network services.

In this business environment ICT-related capital expenditures, previously experiencing curbing and postponement caused by COVID-19, are showing signs of recovery and sales of the core services in each of our main business areas continued to grow year on year.

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

Driven by continued increase in cloud usage and the spread of telecommuting, sales of our best effort basis maximum 10Gbps (uplink and downlink) FTTx service are expanding steadily.

In ISP services, demand for high-quality services has increased, and take-up of our Cross Pass ^(note) service has expanded.

On the other hand, while the demand for phone calls generated from offices is stagnating, our IP phone services showed year on year growth.

In network services, sales for our core products leased circuits and VPN services increased year on year.

Leased circuit orders, which were previously sluggish due to COVID-19, started to show signs of recovery and sales increased.

VPN services achieved a steady sales increase.

In condominium internet services, sales in both the owned condo market and the rental apartments market grew steadily.

The implementation rate of the building-wide model continues to increase in the owned condo market and our orders sustain a strong trend.

By introducing new services and strengthening our salesforce in the rental market, which we are focusing on for growth, we have continued to exceed our growth rate in the owned condo market.

DX services include Option Services for Condo Residents and some of the Condo-related Support services. The fast-track service for condo residents Connectix, which offers a superior internet connection, is scheduled to be launched in August 2021.

In Others, which includes our data center business, we recorded a disposal gain on the partial transfer (data center ComSpace I) of our data center business during the first quarter.

As a result, during the first quarter net sales increased by 233 million yen (1.8%) year on year to 13,071 million yen. Operating income increased by 380 million yen (17.9%) year on year to 2,506 million yen, profit before income taxes for the period increased by 426 million yen (20.8%) year on year to 2,482 million yen. Profit for the period attributable to owners of the parent increased by 221 million yen (16.5%) year on year to 1,562 million yen.

Note:

Cross Pass is a flat-rate internet connection service compatible with NTT EAST and NTT WESTs' Flet's service. It is also compatible with services provided by their OEM partners.

(2) Financial Position

	March 31, 2021	June 30, 2021	Change
Total assets (millions of yen)	89,804	92,708	2,903
Total equity (millions of yen)	25,531	24,803	(728)
Equity attributable to owners of the parent (millions of yen)	23,608	23,216	(392)
Ratio of equity attributable to owners of the parent (%)	26.3	25.0	(1.2)
Balance of borrowings (millions of yen)	38,317	38,339	22

During the first quarter, total assets increased by 2,903 million yen from the end of the previous fiscal year, to 92,708 million yen. Equity attributable to owners of the parent decreased by 392 million yen year on year, to 23,216 million yen. As a result, the ratio of equity attributable to owners of the parent amounted to 25.0%.

Overview of Cash Flows

During the first quarter, the balance of cash and cash equivalents decreased by 945 million yen year on year, to 7,620 million yen.

(Cash flows from operating activities)

An increase in income taxes paid resulted in a decrease of 1,240 million yen year on year in cash generated by operating activities, to 1,443 million yen.

(Cash flows from investing activities)

As a result of selling fixed assets, cash used for investing activities decreased by 1,262 million yen year on year, to 1,463 million yen, while there was an increase in acquisitions of fixed assets.

Consequently, free cash flow (*) in the first quarter increased by 22 million yen year on year to 20 million yen cash used.

(Cash flows from financing activities)

Due to the absence of outlays for the purchase of treasury stock, cash used for financing activities decreased by 72 million yen year on year, to 3,315 million yen, while there were outlays for payment of dividends and repayments of lease liabilities.

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

(3) Forecasts

Regarding our consolidated earnings forecasts for the fiscal year ending March 31, 2022, net sales is forecasted at 54,519 million yen (2.2% year-on-year increase), operating income is forecasted at 9,300 million yen (4.9% year-on-year increase), and profit attributable to owners of the parent at 5,800 million yen (4.8% year-on-year increase). The consolidated earnings results forecasts were disclosed on May 14, 2021, “ARTERIA Networks Corporation Consolidated Financial Report For the Fiscal Year Ended March 31, 2021”, these forecasts have not been changed.

2. Basic Concept Regarding Selection of Accounting Standard

To enhance the international comparability and convenience of its financial reporting in capital markets the Company has adopted International Financial Reporting Standards (IFRS) from the fiscal year ended March 31, 2017.

3. Quarterly Condensed Consolidated Financial Statements

(1) Quarterly Condensed Consolidated Statement of Financial Position

	Previous fiscal year (March 31, 2021)	First quarter of the current fiscal year (June 30, 2021)
	Millions of yen	Millions of yen
Assets		
Current assets		
Cash and cash equivalents	10,957	7,620
Trade and other receivables	7,495	7,182
Other financial assets	309	18
Inventories	200	204
Other current assets	2,204	2,755
Total current assets	21,167	17,781
Non-current assets		
Property, plant and equipment	35,414	35,895
Goodwill	12,646	12,646
Intangible assets	15,072	14,895
Other financial assets	3,562	8,718
Deferred tax assets	1,253	2,057
Other non-current assets	687	713
Total non-current assets	68,637	74,926
Total assets	89,804	92,708

	Previous fiscal year (March 31, 2021)	First quarter of the current fiscal year (June 30, 2021)
	Millions of yen	Millions of yen
Liabilities and Equity		
Liabilities		
Current liabilities		
Borrowings	2,240	2,240
Trade and other payables	6,031	4,561
Lease liabilities	2,027	2,359
Income and other taxes payable	2,181	1,815
Provisions	182	182
Other current liabilities	4,589	4,679
Total current liabilities	17,253	15,838
Non-current liabilities		
Borrowings	36,076	36,099
Long-term lease liabilities	4,741	9,393
Retirement benefit liabilities	867	900
Provisions	2,041	2,056
Deferred tax liabilities	2,469	2,769
Other non-current liabilities	823	846
Total non-current liabilities	47,019	52,066
Total liabilities	64,273	67,904
Equity		
Common stock	5,150	5,150
Capital surplus	4,663	4,671
Retained earnings	13,765	12,559
Treasury stock	(79)	(79)
Other components of equity	109	915
Total equity attributable to owners of the parent	23,608	23,216
Non-controlling interests	1,922	1,586
Total equity	25,531	24,803
Total liabilities and equity	89,804	92,708

(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, 2020 (From April 1, 2020 To June 30, 2020)	For the three-month period ended June 30, 2021 (From April 1, 2021 To June 30, 2021)
	Millions of yen	Millions of yen
Net sales	12,837	13,071
Cost of sales	8,665	8,899
Gross profit	4,172	4,172
Selling, general and administrative expenses	2,009	2,365
Other income	23	745
Other expenses	60	46
Operating profit	2,125	2,506
Finance income	55	86
Finance costs	125	111
Profit for the period before income taxes	2,055	2,482
Income taxes	623	832
Profit for the period	<u>1,432</u>	<u>1,649</u>
Profit for the period attributable to:		
Owners of the parent	1,341	1,562
Non-controlling interests	90	87
Profit for the period	<u>1,432</u>	<u>1,649</u>
Earnings per share		
Basic earnings per share (yen)	26.83	31.26
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, 2020 (From April 1, 2020 To June 30, 2020)	For the three-month period ended June 30, 2021 (From April 1, 2021 To June 30, 2021)
	Millions of yen	Millions of yen
Profit for the period	1,432	1,649
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	63	805
Total items that will not be reclassified to profit or loss	63	805
Total other comprehensive income, net of tax	63	805
Comprehensive income for the period	1,495	2,455
Comprehensive income for the period attributable to:		
Owners of parent	1,404	2,368
Non-controlling interests	90	87
Comprehensive income for the period	1,495	2,455

(3) Quarterly Condensed Consolidated Statement of Changes in Equity
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		
	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

For the three-month period ended June 30, 2021 (From April 1, 2021 To June 30, 2021)

	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, 2021	5,150	4,663	13,765	(79)	109	109
Profit for the period	-	-	1,562	-	-	-
Other comprehensive income	-	-	-	-	805	805
Comprehensive income for the period	-	-	1,562	-	805	805
Cash dividends	-	-	(2,767)	-	-	-
Share-based payment transactions	-	7	-	-	-	-
Total transactions with owners	-	7	(2,767)	-	-	-
As of June 30, 2021	5,150	4,671	12,559	(79)	915	915

	Equity attributable to owners of the parent	Non-controlling interests	Total
	Total		
	Millions of yen	Millions of yen	Millions of yen
As of April 1, 2021	23,608	1,922	25,531
Profit for the period	1,562	87	1,649
Other comprehensive income	805	-	805
Comprehensive income for the period	2,368	87	2,455
Cash dividends	(2,767)	(423)	(3,191)
Share-based payment transactions	7	-	7
Total transactions with owners	(2,760)	(423)	(3,183)
As of June 30, 2021	23,216	1,586	24,803

(4) Quarterly Condensed Consolidated Statement of Cash Flows

	For the three-month period ended June 30, 2020 (From April 1, 2020 To June 30, 2020)	For the three-month period ended June 30, 2021 (From April 1, 2021 To June 30, 2021)
	Millions of yen	Millions of yen
Cash flows from operating activities		
Profit for the period before income taxes	2,055	2,482
Depreciation and amortization	2,193	2,131
Finance income	(55)	(86)
Finance costs	125	111
Loss on disposal of property, plant and equipment	56	26
Decrease (increase) in trade and other receivables	337	681
(Increase) decrease in inventories	(18)	(21)
(Decrease) increase in trade and other payables	(237)	(601)
Gain on sale of fixed assets and transfer of customer contract	-	(719)
Other	(543)	(576)
Subtotal	3,914	3,427
Interest received	0	11
Dividend income received	49	68
Interest paid	(89)	(67)
Income taxes paid	(1,190)	(1,996)
Net cash provided by (used in) operating activities	2,684	1,443
Cash flows from investing activities		
Purchases of property, plant and equipment	(2,250)	(2,775)
Proceeds from sale of property, plant and equipment	-	1,650
Disposals of property, plant and equipment	(95)	(139)
Purchases of intangible assets	(261)	(94)
Other	(119)	(104)
Net cash (used in) provided by investing activities	(2,726)	(1,463)
Cash flows from financing activities		
Repayments of lease liabilities	(665)	(555)
Dividends paid	(2,639)	(2,755)
Purchase of treasury stock	(79)	-
Other	(4)	(4)
Net cash (used in) provided by financing activities	(3,388)	(3,315)
Net effect of currency translation on cash and cash equivalents	-	(1)
Net increase (decrease) in cash and cash equivalents	(3,431)	(3,337)
Cash and cash equivalents at the beginning of the period	11,996	10,957
Cash and cash equivalents at the end of the period	8,565	7,620

(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.