

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 Six-month Period Ended September 30, 2021 [IFRS]

November 12, 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:	November 12, 2021	
Scheduled date of dividend payment:	December 10, 2021	
Supplemental quarterly 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 Six-month Period Ended September 30, 2021 (April 1, 2021 – September 30, 2021, “the second 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	
		%		%		%		%		%		%
Six-month period ended September 30, 2021	26,599	2.8	5,061	21.6	4,945	24.4	3,392	22.7	3,214	24.5	4,150	46.8
Six-month period ended September 30, 2020	25,869	1.6	4,163	(1.8)	3,976	(1.1)	2,764	(1.3)	2,581	(1.3)	2,828	(2.4)

	Basic earnings per share	Diluted earnings per share
Six-month period ended September 30, 2021	Yen 64.37	Yen -
Six-month period ended September 30, 2020	Yen 51.65	Yen -

(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 September 30, 2021	92,760	26,267	24,590	% 26.5
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	-	29.00			
Fiscal year ending March 31, 2022 (forecasted)			-	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 six-month period ended September 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 September 30, 2021	50,000,000 Shares	As of March 31, 2021	50,000,000 Shares
(ii) Number of treasury stock	As of September 30, 2021	111,087 Shares	As of March 31, 2021	13,625 Shares
(iii) Number of weighted average common stock outstanding	As of September 30, 2021	49,936,238 Shares	As of September 30, 2020	49,977,377 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.”

Appendix

1. Qualitative Information / Consolidated Financial Statements, etc.	5
(1) Operational Results	5
(2) Financial Position	6
(3) Forecasts	7
2. Basic Concept Regarding Selection of Accounting Standard	7
3. Quarterly Condensed Consolidated Financial Statements	8
(1) Quarterly Condensed Consolidated Statement of Financial Position	8
(2) Quarterly Condensed Consolidated Statement of Income and Quarterly Condensed Consolidated Statement of Comprehensive Income	10
(3) Quarterly Condensed Consolidated Statement of Changes in Equity	12
(4) Quarterly Condensed Consolidated Statement of Cash Flows	14
(5) Notes to Consolidated Financial Statements.	15

1. Qualitative Information / Consolidated Financial Statements, etc.

(1) Operational Results

The continuous global spread of COVID-19 during the second quarter, has significantly affected the economy and economic conditions remain tough. While vaccinations are increasing and economic recovery is expected, 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, our overall earnings results are trending in line with expectations. This includes our core service sales operations and cost control efforts.

Executing our growth strategy, aimed at achieving our mid-term plan, we have put in place company-wide organization restructuring efforts to enhance our network and improve productivity.

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 signs of recovery.

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 expansion continued.

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 expand in existing condos in addition to new builds.

In DX services, the fast-track service for condo residents Connectix, which offers a superior internet connection has been launched.

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

As a result, during the second quarter net sales increased by 729 million yen (2.8%) year on year to 26,599 million yen. Operating income increased by 898 million yen (21.6%) year on year to 5,061 million yen, profit before income taxes for the period increased by 968 million yen (24.4%) year on year to 4,945 million yen. Profit for the period attributable to owners of the parent increased by 632 million yen (24.5%) year on year to 3,214 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	September 30, 2021	Change
Total assets (millions of yen)	89,804	92,760	2,955
Total equity (millions of yen)	25,531	26,267	735
Equity attributable to owners of the parent (millions of yen)	23,608	24,590	981
Ratio of equity attributable to owners of the parent (%)	26.3	26.5	0.2
Balance of borrowings (millions of yen)	38,317	37,241	(1,075)

During the second quarter, total assets increased by 2,955 million yen from the end of the previous fiscal year, to 92,760 million yen. Equity attributable to owners of the parent increased by 981 million yen year on year, to 24,590 million yen. As a result, the ratio of equity attributable to owners of the parent amounted to 26.5%.

Overview of Cash Flows

During the second quarter, the balance of cash and cash equivalents increased by 419 million yen year on year, to 8,209 million yen.

(Cash flows from operating activities)

An increase in income taxes paid resulted in a decrease of 1,387 million yen year on year in cash generated by operating activities, to 4,671 million yen.

(Cash flows from investing activities)

As a result of selling fixed assets and investment securities, cash used for investing activities decreased by 3,166 million yen year on year, to 1,633 million yen, while there was an increase in acquisitions of fixed assets.

Consequently, free cash flow (*) in the second quarter increased by 1,779 million yen year on year to 3,037 million yen cash generated.

(Cash flows from financing activities)

Cash used for financing activities increased by 320 million yen year on year, to 5,786 million yen, due to payment of dividends, repayment of long-term borrowings, and purchase of treasury stock.

* 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)	Second quarter of the current fiscal year (September 30, 2021)
	Millions of yen	Millions of yen
Assets		
Current assets		
Cash and cash equivalents	10,957	8,209
Trade and other receivables	7,495	7,285
Other financial assets	309	16
Inventories	200	163
Other current assets	2,204	2,502
Total current assets	21,167	18,176
Non-current assets		
Property, plant and equipment	35,414	37,060
Goodwill	12,646	12,646
Intangible assets	15,072	14,850
Other financial assets	3,562	7,399
Deferred tax assets	1,253	1,894
Other non-current assets	687	730
Total non-current assets	68,637	74,583
Total assets	89,804	92,760

	Previous fiscal year (March 31, 2021)	Second quarter of the current fiscal year (September 30, 2021)
	Millions of yen	Millions of yen
Liabilities and Equity		
Liabilities		
Current liabilities		
Borrowings	2,240	2,392
Trade and other payables	6,031	3,789
Lease liabilities	2,027	2,728
Income and other taxes payable	2,181	2,519
Provisions	182	182
Other current liabilities	4,589	4,138
Total current liabilities	17,253	15,751
Non-current liabilities		
Borrowings	36,076	34,848
Long-term lease liabilities	4,741	9,577
Retirement benefit liabilities	867	942
Provisions	2,041	2,071
Deferred tax liabilities	2,469	2,426
Other non-current liabilities	823	874
Total non-current liabilities	47,019	50,741
Total liabilities	64,273	66,493
Equity		
Common stock	5,150	5,150
Capital surplus	4,663	4,682
Retained earnings	13,765	15,080
Treasury stock	(79)	(322)
Other components of equity	109	(0)
Total equity attributable to owners of the parent	23,608	24,590
Non-controlling interests	1,922	1,677
Total equity	25,531	26,267
Total liabilities and equity	89,804	92,760

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

(Quarterly Condensed Consolidated Statement of Income for the six-month period ended September 30)

	For the six-month period ended September 30, 2020 (From April 1, 2020 To September 30, 2020)	For the six-month period ended September 30, 2021 (From April 1, 2021 To September 30, 2021)
	Millions of yen	Millions of yen
Net sales	25,869	26,599
Cost of sales	17,673	18,132
Gross profit	8,196	8,467
Selling, general and administrative expenses	3,951	4,515
Other income	34	1,247
Other expenses	115	137
Operating profit	4,163	5,061
Finance income	60	122
Finance costs	246	238
Profit for the period before income taxes	3,976	4,945
Income taxes	1,212	1,553
Profit for the period	<u>2,764</u>	<u>3,392</u>
Profit for the period attributable to:		
Owners of the parent	2,581	3,214
Non-controlling interests	183	177
Profit for the period	<u>2,764</u>	<u>3,392</u>
Earnings per share		
Basic earnings per share (yen)	51.65	64.37
Diluted earnings per share (yen)	-	-

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

	For the six-month period ended September 30, 2020 (From April 1, 2020 To September 30, 2020)	For the six-month period ended September 30, 2021 (From April 1, 2021 To September 30, 2021)
	Millions of yen	Millions of yen
Profit for the period	2,764	3,392
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	63	758
Total items that will not be reclassified to profit or loss	63	758
Total other comprehensive income, net of tax	63	758
Comprehensive income for the period	<u>2,828</u>	<u>4,150</u>
Comprehensive income for the period attributable to:		
Owners of parent	2,644	3,973
Non-controlling interests	183	177
Comprehensive income for the period	<u>2,828</u>	<u>4,150</u>

(3) Quarterly Condensed Consolidated Statement of Changes in Equity
For the six-month period ended September 30, 2020 (From April 1, 2020 To September 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	-	-	2,581	-	-	-
Other comprehensive income	-	-	-	-	63	63
Comprehensive income for the period	-	-	2,581	-	63	63
Purchase of treasury stock	-	-	-	(79)	-	-
Cash dividends	-	-	(2,648)	-	-	-
Share-based payment transactions	-	7	-	-	-	-
Total transactions with owners	-	7	(2,648)	(79)	-	-
As of September 30, 2020	5,150	4,647	10,806	(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	2,581	183	2,764
Other comprehensive income	63	-	63
Comprehensive income for the period	2,644	183	2,828
Purchase of treasury stock	(79)	-	(79)
Cash dividends	(2,648)	(436)	(3,084)
Share-based payment transactions	7	-	7
Total transactions with owners	(2,720)	(436)	(3,156)
As of September 30, 2020	20,634	1,744	22,378

For the six-month period ended September 30, 2021 (From April 1, 2021 To September 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	-	-	3,214	-	-	-
Other comprehensive income	-	-	-	-	758	758
Comprehensive income for the period	-	-	3,214	-	758	758
Transfer to retained earnings	-	-	868	-	(868)	(868)
Purchase of treasury stock	-	-	-	(242)	-	-
Cash dividends	-	-	(2,767)	-	-	-
Share-based payment transactions	-	18	-	-	-	-
Total transactions with owners	-	18	(1,899)	(242)	(868)	(868)
As of September 30, 2021	5,150	4,682	15,080	(322)	(0)	(0)

	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	3,214	177	3,392
Other comprehensive income	758	-	758
Comprehensive income for the period	3,973	177	4,150
Transfer to retained earnings	-	-	-
Purchase of treasury stock	(242)	-	(242)
Cash dividends	(2,767)	(423)	(3,191)
Share-based payment transactions	18	-	18
Total transactions with owners	(2,991)	(423)	(3,414)
As of September 30, 2021	24,590	1,677	26,267

(4) Quarterly Condensed Consolidated Statement of Cash Flows

	For the six-month period ended September 30, 2020 (From April 1, 2020 To September 30, 2020)	For the six-month period ended September 30, 2021 (From April 1, 2021 To September 30, 2021)
	Millions of yen	Millions of yen
Cash flows from operating activities		
Profit for the period before income taxes	3,976	4,945
Depreciation and amortization	4,401	4,281
Finance income	(60)	(122)
Finance costs	246	238
Loss on disposal of property, plant and equipment	97	104
Decrease (increase) in trade and other receivables	74	578
(Increase) decrease in inventories	(121)	(6)
(Decrease) increase in trade and other payables	(3)	(1,028)
Gain on sale of fixed assets and transfer of customer contract	-	(1,200)
Other	(870)	(703)
Subtotal	<u>7,740</u>	<u>7,088</u>
Interest received	0	40
Dividend income received	49	68
Interest paid	(175)	(183)
Income taxes paid	<u>(1,556)</u>	<u>(2,342)</u>
Net cash provided by (used in) operating activities	<u>6,058</u>	<u>4,671</u>
Cash flows from investing activities		
Purchases of property, plant and equipment	(4,107)	(4,380)
Proceeds from sale of property, plant and equipment	-	1,919
Disposals of property, plant and equipment	(178)	(226)
Purchases of intangible assets	(369)	(360)
Proceeds from sale of investment securities	-	1,500
Other	(144)	(85)
Net cash (used in) provided by investing activities	<u>(4,800)</u>	<u>(1,633)</u>
Cash flows from financing activities		
Repayments of long-term borrowings	(969)	(1,120)
Repayments of lease liabilities	(1,323)	(1,224)
Dividends paid	(2,647)	(2,766)
Dividends paid to non-controlling interests	(436)	(423)
Purchase of treasury stock	(79)	(242)
Other	(8)	(8)
Net cash (used in) provided by financing activities	<u>(5,465)</u>	<u>(5,786)</u>
Net effect of currency translation on cash and cash equivalents	-	0
Net increase (decrease) in cash and cash equivalents	<u>(4,207)</u>	<u>(2,747)</u>
Cash and cash equivalents at the beginning of the period	<u>11,996</u>	<u>10,957</u>
Cash and cash equivalents at the end of the period	<u>7,789</u>	<u>8,209</u>

(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.