

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 Nine-month Period Ended December 31, 2021 [IFRS]

February 14, 2022

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:	February 14, 2022	
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, 2021 (April 1, 2021 – December 31, 2021, “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, 2021	40,283	3.0	7,559	19.1	7,354	21.6	5,105	22.1	4,828	23.5	5,864	38.2
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)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine-month period ended December 31, 2021	96.72	-
Nine-month period ended December 31, 2020	78.21	-

(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, 2021	92,619	26,545	24,768	% 26.7
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 nine-month period ended December 31, 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 December 31, 2021	50,000,000 Shares	As of March 31, 2021	50,000,000 Shares
(ii) Number of treasury stock	As of December 31, 2021	111,087 Shares	As of March 31, 2021	13,625 Shares
(iii) Number of weighted average common stock outstanding	As of December 31, 2021	49,920,405 Shares	As of December 31, 2020	49,985,139 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

Although we saw a temporary improvement of COVID-19 during the third quarter, new variants have occurred and economic conditions remain tough. While the expedition of booster vaccinations is being considered 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 quality and improve productivity.

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

Driven by a 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.

Due to expansion of sales opportunities to partners our IP phone services sales grew year on year.

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

Driven by steady demand from corporates, OTTs and telecommunication providers, who are promoting the introduction of DX, leased circuit sales grew year on year.

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.

In the rental market, which we are focusing on for growth, we have enhanced our competitiveness by introducing high-quality services and other optional services, such as smart locks, and achieved sales growth.

In DX services, the roll out of Connectix is contributing to differentiation with competitors in the building-wide market, and the number of condominiums in which it is available is gradually expanding.

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 third quarter.

As a result, during the third quarter net sales increased by 1,178 million yen (3.0%) year on year to 40,283 million yen. Operating income increased by 1,213 million yen (19.1%) year on year to 7,559 million yen, profit before income taxes for the period increased by 1,304 million yen (21.6%) year on year to 7,354 million yen. Profit for the period attributable to owners of the parent increased by 918 million yen (23.5%) year on year to 4,828 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	December 31, 2021	Change
Total assets (millions of yen)	89,804	92,619	2,814
Total equity (millions of yen)	25,531	26,545	1,013
Equity attributable to owners of the parent (millions of yen)	23,608	24,768	1,159
Ratio of equity attributable to owners of the parent (%)	26.3	26.7	0.5
Balance of borrowings (millions of yen)	38,317	37,262	(1,054)

During the third quarter, total assets increased by 2,814 million yen from the end of the previous fiscal year, to 92,619 million yen. Equity attributable to owners of the parent increased by 1,159 million yen year on year, to 24,768 million yen. As a result, the ratio of equity attributable to owners of the parent amounted to 26.7%.

Overview of Cash Flows

During the third quarter, the balance of cash and cash equivalents decreased by 1,589 million yen year on year, to 6,928 million yen.

(Cash flows from operating activities)

An increase in income taxes paid resulted in a decrease of 1,637 million yen year on year in cash generated by operating activities, to 7,687 million yen.

(Cash flows from investing activities)

As a result of selling fixed assets and investment securities, cash used for investing activities decreased by 2,835 million yen year on year, to 3,848 million yen, while there was an increase in acquisitions of fixed assets.

Consequently, free cash flow (*) in the third quarter increased by 1,198 million yen year on year to 3,839 million yen cash generated.

(Cash flows from financing activities)

Cash used for financing activities increased by 1,747 million yen year on year, to 7,866 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, sales operations for our core products and cost control are trending as planned.

However, in the fourth quarter we are forecasting the occurrence of some costs related to the organization restructuring efforts to enhance our network quality and improve productivity. There is also the risk that the provision of some of our services may be delayed as a result of a delay in the procurement of other carriers' network

Due to these reasons, we have not changed our forecasts disclosed on May 14, 2021, "ARTERIA Networks Corporation Consolidated Financial Report For the Fiscal Year Ended March 31, 2021".

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)	Third quarter of the current fiscal year (December 31, 2021)
	Millions of yen	Millions of yen
Assets		
Current assets		
Cash and cash equivalents	10,957	6,928
Trade and other receivables	7,495	7,617
Other financial assets	309	48
Inventories	200	209
Other current assets	2,204	2,283
Total current assets	21,167	17,087
Non-current assets		
Property, plant and equipment	35,414	37,848
Goodwill	12,646	12,646
Intangible assets	15,072	14,972
Other financial assets	3,562	7,697
Deferred tax assets	1,253	1,776
Other non-current assets	687	590
Total non-current assets	68,637	75,531
Total assets	89,804	92,619

	Previous fiscal year (March 31, 2021)	Third quarter of the current fiscal year (December 31, 2021)
	Millions of yen	Millions of yen
Liabilities and Equity		
Liabilities		
Current liabilities		
Borrowings	2,240	2,392
Trade and other payables	6,031	5,231
Lease liabilities	2,027	2,709
Income and other taxes payable	2,181	1,590
Provisions	182	182
Other current liabilities	4,589	3,766
Total current liabilities	17,253	15,873
Non-current liabilities		
Borrowings	36,076	34,870
Long-term lease liabilities	4,741	8,976
Retirement benefit liabilities	867	970
Provisions	2,041	2,085
Deferred tax liabilities	2,469	2,414
Other non-current liabilities	823	884
Total non-current liabilities	47,019	50,201
Total liabilities	64,273	66,074
Equity		
Common stock	5,150	5,150
Capital surplus	4,663	4,693
Retained earnings	13,765	15,247
Treasury stock	(79)	(322)
Other components of equity	109	(0)
Total equity attributable to owners of the parent	23,608	24,768
Non-controlling interests	1,922	1,776
Total equity	25,531	26,545
Total liabilities and equity	89,804	92,619

(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, 2020 (From April 1, 2020 To December 31, 2020)	For the nine-month period ended December 31, 2021 (From April 1, 2021 To December 31, 2021)
	Millions of yen	Millions of yen
Net sales	39,105	40,283
Cost of sales	26,651	27,439
Gross profit	12,454	12,844
Selling, general and administrative expenses	6,005	6,718
Other income	47	1,590
Other expenses	151	157
Operating profit	6,345	7,559
Finance income	65	155
Finance costs	361	360
Profit for the period before income taxes	6,050	7,354
Income taxes	1,870	2,249
Profit for the period	<u>4,180</u>	<u>5,105</u>
Profit for the period attributable to:		
Owners of the parent	3,909	4,828
Non-controlling interests	270	277
Profit for the period	<u>4,180</u>	<u>5,105</u>
Earnings per share		
Basic earnings per share (yen)	78.21	96.72
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, 2020 (From April 1, 2020 To December 31, 2020)	For the nine-month period ended December 31, 2021 (From April 1, 2021 To December 31, 2021)
	Millions of yen	Millions of yen
Profit for the period	4,180	5,105
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	4,243	5,864
Comprehensive income for the period attributable to:		
Owners of parent	3,972	5,586
Non-controlling interests	270	277
Comprehensive income for the period	4,243	5,864

(3) Quarterly Condensed Consolidated Statement of Changes in Equity
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		
	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

For the nine-month period ended December 31, 2021 (From April 1, 2021 To December 31, 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	-	-	4,828	-	-	-
Other comprehensive income	-	-	-	-	758	758
Comprehensive income for the period	-	-	4,828	-	758	758
Transfer to retained earnings	-	-	868	-	(868)	(868)
Purchase of treasury stock	-	-	-	(242)	-	-
Cash dividends	-	-	(4,214)	-	-	-
Share-based payment transactions	-	29	-	-	-	-
Total transactions with owners	-	29	(3,346)	(242)	(868)	(868)
As of December 31, 2021	5,150	4,693	15,247	(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	4,828	277	5,105
Other comprehensive income	758	-	758
Comprehensive income for the period	5,586	277	5,864
Transfer to retained earnings	-	-	-
Purchase of treasury stock	(242)	-	(242)
Cash dividends	(4,214)	(423)	(4,638)
Share-based payment transactions	29	-	29
Total transactions with owners	(4,426)	(423)	(4,850)
As of December 31, 2021	24,768	1,776	26,545

(4) Quarterly Condensed Consolidated Statement of Cash Flows

	For the nine-month period ended December 31, 2020 (From April 1, 2020 To December 31, 2020)	For the nine-month period ended December 31, 2021 (From April 1, 2021 To December 31, 2021)
	Millions of yen	Millions of yen
Cash flows from operating activities		
Profit for the period before income taxes	6,050	7,354
Depreciation and amortization	6,626	6,469
Finance income	(65)	(155)
Finance costs	361	360
Loss on disposal of property, plant and equipment	124	119
Decrease (increase) in trade and other receivables	(413)	238
(Increase) decrease in inventories	(196)	(24)
(Decrease) increase in trade and other payables	13	(535)
Gain on sale of fixed assets and transfer of customer contract	-	(1,498)
Other	(533)	(709)
Subtotal	<u>11,965</u>	<u>11,619</u>
Interest received	0	40
Dividend income received	49	68
Interest paid	(259)	(266)
Income taxes paid	<u>(2,431)</u>	<u>(3,774)</u>
Net cash provided by (used in) operating activities	<u>9,325</u>	<u>7,687</u>
Cash flows from investing activities		
Purchases of property, plant and equipment	(5,702)	(6,200)
Proceeds from sale of property, plant and equipment	-	1,919
Disposals of property, plant and equipment	(230)	(277)
Purchases of intangible assets	(550)	(675)
Proceeds from sale of investment securities	-	1,500
Other	(200)	(113)
Net cash (used in) provided by investing activities	<u>(6,684)</u>	<u>(3,848)</u>
Cash flows from financing activities		
Repayments of long-term borrowings	(969)	(1,120)
Repayments of lease liabilities	(1,973)	(1,855)
Dividends paid	(2,647)	(4,211)
Dividends paid to non-controlling interests	(436)	(423)
Purchase of treasury stock	(79)	(242)
Other	(13)	(13)
Net cash (used in) provided by financing activities	<u>(6,119)</u>	<u>(7,866)</u>
Net effect of currency translation on cash and cash equivalents	-	(1)
Net (decrease) increase in cash and cash equivalents	(3,478)	(4,028)
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>8,518</u>	<u>6,928</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.