

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, 2022 [IFRS]

August 15, 2022

Company name	ARTERIA Networks Corporation	Stock listing: Tokyo Stock Exchange – Prime Market
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 15, 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 Three-month Period Ended June 30, 2022 (April 1, 2022 – June 30, 2022, “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, 2022	13,963	6.8	2,029	(19.0)	1,942	(21.8)	1,353	(18.0)	1,254	(19.7)	1,353	(44.9)
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

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three-month period ended June 30, 2022	25.15	-
Three-month period ended June 30, 2021	31.26	-

(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, 2022	98,854	27,315	25,714	% 26.0
As of March 31, 2022	99,081	27,930	26,017	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, 2022	-	29.00	-	31.45	60.45
Fiscal year ending March 31, 2023	-				
Fiscal year ending March 31, 2023 (forecasted)		30.26	-	30.26	60.52

Note

Revision of forecasted dividend: None

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2023 (April 1, 2022 to March 31, 2023)

(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, 2023	58,000	4.7	9,650	1.1	9,311	0.7	6,436	0.4	6,050	0.3	121.04

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, 2022: 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, 2022	50,000,000 Shares	As of March 31, 2022	50,000,000 Shares
(ii) Number of treasury stock	As of June 30, 2022	112,766 Shares	As of March 31, 2022	112,766 Shares
(iii) Number of weighted average common stock outstanding	As of June 30, 2022	49,887,234 Shares	As of June 30, 2021	49,986,016 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

While there were some signs of economic recovery, due to the spread of COVID-19 in China and the drawn-out war in Ukraine during the first quarter the downward risk of the rise in raw material prices and supply chain difficulties needs to be monitored.

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

In this business environment, our core service sales operations and effective cost control, as a result of the structural reorganization efforts executed in the previous fiscal year, led to our overall earnings results trending in line with expectations. Excluding the disposal gain on the partial transfer of our data center business recorded during the previous fiscal year, our sustained revenue and profit growth was driven by core service performance.

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

In FTTx services cloud usage and the spread of telecommuting continue to be growth drivers, we have also started the expansion of our network areas.

In ISP services, demand for high-quality services has increased, and take-up of our Cross Pass (note1) service has expanded.

Due to higher demand from cloud PBX service providers IP phone services sales continues to grow.

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

Driven by steady demand for reliable high-quality and secure services from corporates, OTTs and telecommunication providers, who are promoting the introduction of DX, leased circuit sales grew year on year. We are proactively enhancing our network in areas where there is high demand, such as Tokyo-Nagoya-Osaka and data center parks.

In VPN services we are receiving increased inquiries regarding VANILA, a software-based virtualization service using NFV (note2) technology, which offers a variety of network services in the cloud.

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.

We have started to offer Connectix to small to medium sized condos in the rental market, within our Five.A internet service package. Our orders in the rental market continue to expand.

In DX services, our Connectix service contributes to our differentiation in the building-wide market, and the number of buildings to which it is available continues to grow.

We executed a joint capital investment with GameWith, Inc.

As a result, during the first quarter net sales increased by 891 million yen (6.8%) year on year to 13,963 million yen. Due to a disposal gain of 719 million yen on the partial transfer of our data center business recorded during the first quarter of the previous fiscal year, operating income decreased by 476 million yen (19.0%) year on year to 2,029 million yen, profit before income taxes for the period decreased by 540 million yen (21.8%) year on year to 1,942 million yen. Profit for the period attributable to owners of the parent decreased by 307 million yen (19.7%) year on year to 1,254 million yen.

Note:

1. 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. Network Functions Virtualization

(2) Financial Position

	March 31, 2022	June 30, 2022	Change
Total assets (millions of yen)	99,081	98,854	(227)
Total equity (millions of yen)	27,930	27,315	(615)
Equity attributable to owners of the parent (millions of yen)	26,017	25,714	(302)
Ratio of equity attributable to owners of the parent (%)	26.3	26.0	(0.2)
Balance of borrowings (millions of yen)	36,163	39,184	3,020

During the first quarter, total assets decreased by 227 million yen from the end of the previous fiscal year, to 98,854 million yen. Equity attributable to owners of the parent decreased by 302 million yen year on year, to 25,714 million yen. As a result, the ratio of equity attributable to owners of the parent amounted to 26.0%.

Overview of Cash Flows

During the first quarter, the balance of cash and cash equivalents decreased by 2,893 million yen year on year, to 4,726 million yen.

(Cash flows from operating activities)

An increase in income taxes paid resulted in a decrease of 117 million yen year on year in cash generated by operating activities, to 1,326 million yen.

(Cash flows from investing activities)

As a result of no proceeds from selling fixed assets and purchase of investments accounted for using the equity method, cash used for investing activities increased by 3,670 million yen year on year, to 5,134 million yen.

Consequently, free cash flow (*) in the first quarter decreased by 3,788 million yen year on year to 3,808 million yen cash used.

(Cash flows from financing activities)

Cash provided by financing activities increased by 4,064 million yen year on year, to 748 million yen, due to decreased payments of year-end dividends caused by declaration of interim dividends in the previous fiscal year and proceeds from short-term borrowings.

* 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, 2023, net sales is forecasted at 58,000 million yen (4.7% year-on-year increase), operating income is forecasted at 9,650 million yen (1.1% year-on-year increase), and profit attributable to owners of the parent at 6,050 million yen (0.3% year-on-year increase). The consolidated earnings results forecasts were disclosed on May 14, 2022, “ARTERIA Networks Corporation Consolidated Financial Report For the Fiscal Year Ended March 31, 2022”, 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, 2022)	First quarter of the current fiscal year (June 30, 2022)
	Millions of yen	Millions of yen
Assets		
Current assets		
Cash and cash equivalents	7,781	4,726
Trade and other receivables	8,258	7,717
Other financial assets	5	27
Inventories	275	277
Other current assets	2,395	2,894
Total current assets	18,715	15,643
Non-current assets		
Property, plant and equipment	41,775	42,793
Goodwill	12,646	12,646
Intangible assets	15,052	14,923
Investments accounted for using equity method	-	1,771
Other financial assets	8,017	8,111
Deferred tax assets	1,923	1,811
Other non-current assets	950	1,152
Total non-current assets	80,365	83,210
Total assets	99,081	98,854

	Previous fiscal year (March 31, 2022)	First quarter of the current fiscal year (June 30, 2022)
	Millions of yen	Millions of yen
Liabilities and Equity		
Liabilities		
Current liabilities		
Borrowings	36,163	39,184
Trade and other payables	7,655	6,278
Lease liabilities	2,630	2,464
Income and other taxes payable	2,519	622
Provisions	182	182
Other current liabilities	4,611	4,873
Total current liabilities	53,762	53,606
Non-current liabilities		
Long-term lease liabilities	8,508	9,132
Retirement benefit liabilities	906	947
Provisions	3,704	3,725
Deferred tax liabilities	2,320	2,267
Other non-current liabilities	1,948	1,860
Total non-current liabilities	17,388	17,932
Total liabilities	71,151	71,539
Equity		
Common stock	5,150	5,150
Capital surplus	4,703	4,715
Retained earnings	16,485	16,171
Treasury stock	(322)	(322)
Other components of equity	(0)	0
Total equity attributable to owners of the parent	26,017	25,714
Non-controlling interests	1,913	1,600
Total equity	27,930	27,315
Total liabilities and equity	99,081	98,854

(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, 2021 (From April 1, 2021 To June 30, 2021)	For the three-month period ended June 30, 2022 (From April 1, 2022 To June 30, 2022)
	Millions of yen	Millions of yen
Net sales	13,071	13,963
Cost of sales	8,899	9,499
Gross profit	4,172	4,463
Selling, general and administrative expenses	2,365	2,437
Other income	745	59
Other expenses	46	55
Operating profit	2,506	2,029
Finance income	86	32
Finance costs	111	120
Profit for the period before income taxes	2,482	1,942
Income taxes	832	588
Profit for the period	<u>1,649</u>	<u>1,353</u>
Profit for the period attributable to:		
Owners of the parent	1,562	1,254
Non-controlling interests	87	98
Profit for the period	<u>1,649</u>	<u>1,353</u>
Earnings per share		
Basic earnings per share (yen)	31.26	25.15
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, 2021 (From April 1, 2021 To June 30, 2021)	For the three-month period ended June 30, 2022 (From April 1, 2022 To June 30, 2022)
	Millions of yen	Millions of yen
Profit for the period	1,649	1,353
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	805	0
Total items that will not be reclassified to profit or loss	805	0
Total other comprehensive income, net of tax	805	0
Comprehensive income for the period	2,455	1,353
Comprehensive income for the period attributable to:		
Owners of parent	2,368	1,255
Non-controlling interests	87	98
Comprehensive income for the period	2,455	1,353

(3) Quarterly Condensed Consolidated Statement of Changes in Equity
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		
	Equity attributable to owners of the parent	Non-controlling interests	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

For the three-month period ended June 30, 2022 (From April 1, 2022 To June 30, 2022)

	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, 2022	5,150	4,703	16,485	(322)	(0)	(0)
Profit for the period	-	-	1,254	-	-	-
Other comprehensive income	-	-	-	-	0	0
Comprehensive income for the period	-	-	1,254	-	0	0
Cash dividends	-	-	(1,568)	-	-	-
Share-based payment transactions	-	11	-	-	-	-
Total transactions with owners	-	11	(1,568)	-	-	-
As of June 30, 2022	5,150	4,715	16,171	(322)	0	0

	Equity attributable to owners of the parent	Non-controlling interests	Total
	Millions of yen	Millions of yen	Millions of yen
As of April 1, 2022	26,017	1,913	27,930
Profit for the period	1,254	98	1,353
Other comprehensive income	0	-	0
Comprehensive income for the period	1,255	98	1,353
Cash dividends	(1,568)	(411)	(1,980)
Share-based payment transactions	11	-	11
Total transactions with owners	(1,557)	(411)	(1,968)
As of June 30, 2022	25,714	1,600	27,315

(4) Quarterly Condensed Consolidated Statement of Cash Flows

	For the three-month period ended June 30, 2021 (From April 1, 2021 To June 30, 2021)	For the three-month period ended June 30, 2022 (From April 1, 2022 To June 30, 2022)
	Millions of yen	Millions of yen
Cash flows from operating activities		
Profit for the period before income taxes	2,482	1,942
Depreciation and amortization	2,131	2,306
Finance income	(86)	(32)
Finance costs	111	120
Loss on disposal of property, plant and equipment	26	16
Decrease (increase) in trade and other receivables	681	545
Decrease (increase) in inventories	(21)	2
(Decrease) increase in trade and other payables	(601)	(364)
Gain on sale of fixed assets and transfer of customer contract	(719)	(21)
Other	(576)	(805)
Subtotal	3,427	3,708
Interest received	11	0
Dividend income received	68	-
Interest paid	(67)	(93)
Income taxes paid	(1,996)	(2,288)
Net cash provided by (used in) operating activities	1,443	1,326
Cash flows from investing activities		
Purchases of property, plant and equipment	(2,775)	(2,873)
Proceeds from sale of property, plant and equipment	1,650	-
Disposals of property, plant and equipment	(139)	(65)
Purchases of intangible assets	(94)	(270)
Purchases of investments accounted for using equity method	-	(1,771)
Other	(104)	(154)
Net cash (used in) provided by investing activities	(1,463)	(5,134)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	-	3,000
Repayments of lease liabilities	(555)	(685)
Dividends paid	(2,755)	(1,561)
Other	(4)	(4)
Net cash provided by (used in) financing activities	(3,315)	748
Net effect of currency translation on cash and cash equivalents	(1)	5
Net (decrease) increase in cash and cash equivalents	(3,337)	(3,054)
Cash and cash equivalents at the beginning of the period	10,957	7,781
Cash and cash equivalents at the end of the period	7,620	4,726

(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.