

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, 2022 [IFRS]

November 14, 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:	November 14, 2022	
Scheduled date of dividend payment:	December 9, 2022	
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, 2022 (April 1, 2022 – September 30, 2022, “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, 2022	28,758	8.1	4,192	(17.2)	4,014	(18.8)	2,798	(17.5)	2,595	(19.3)	2,799	(32.6)
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

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six-month period ended September 30, 2022	52.01	-
Six-month period ended September 30, 2021	64.37	-

(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, 2022	97,949	28,775	27,069	% 27.6
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	-	30.26			
Fiscal year ending March 31, 2023 (forecasted)			-	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 six-month period ended September 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 September 30, 2022	50,000,000 Shares	As of March 31, 2022	50,000,000 Shares
(ii) Number of treasury stock	As of September 30, 2022	59,225 Shares	As of March 31, 2022	112,766 Shares
(iii) Number of weighted average common stock outstanding	As of September 30, 2022	49,902,063 Shares	As of September 30, 2021	49,936,238 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 was a flare up of COVID-19 in Japan during the second quarter, the government did not issue any restrictions indicating that the country is entering the “new normal” phase.

On the other hand, due to the drawn-out war in Ukraine and global financial tightening, possible headwinds to the economy such as procurement limitations and rise in prices need 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 all our core services sustained steady sales trends.

Excluding the disposal gain on the transfer of the data center (approx. 1.2bn yen), which occurred last fiscal year, revenue increase was sustained mainly driven by the monthly recurring revenue generated by our core services. Gross profit is also steadily expanding supported by cost control, as a result of the structural reorganization previously executed.

On the other hand, investigation and other costs relating to the establishment of an investigation committee (approx. 0.3bn yen), as per our disclosure on June 13, 2022, occurred. We have however determined that the earnings forecast for the fiscal year ending March 2023, announced on May 13, 2022, will not be altered.

The quality of our core services is also receiving positive reviews. We obtained No.1 in customer satisfaction in the “Fixed-line Network Services” category of the Nikkei Computer’s Customer Survey for 2022-2023, announced on September 1, 2022.

Our subsidiary Tsunagu Network Communications Inc. ranked No. 1 market share for the 9th consecutive year according to the MM Research Institute Building-wide ISP Services to Condominiums Market Share Survey (as of end of March 2022) (note1).

In internet services, sales for our IP phone services decreased slightly year on year but sales of FTTx and ISP increased year on year, contributing to steady overall sales growth in internet services.

In FTTx services, cloud usage and the spread of telecommuting remain growth drivers and the expansion of our network areas is ongoing.

In ISP services, demand for high-quality services has increased, and take-up of our Cross Pass (note2) service has expanded.

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, supported by the expanded use of cloud services and mobile devices, sales of services such as cloud connectivity, our high-quality backbone network and mobile access are increasing. We have also expanded the service lineup for our VANILA service, which uses NFV (note3) technology, and orders are increasing.

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

To answer to the need for high-speed and high-quality internet services in condominiums we have launched a service which delivers maximum 10Gbps (uplink and downlink) to each condo unit and continue to expand our service lineup.

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

Due to the spread of telecommuting and video streaming services demand for high-quality services in the rental market is also increasing. We have started to offer Connectix to small to medium sized condos in the rental market, within our Five.A internet service package.

In DX services, Connectix contributes to our differentiation in the building-wide market, and the number of buildings to which it is available continues to grow. Orders for GameWith Hikari, a high-quality service for eSports provided by our equity method affiliate GameWith inc., are increasing steadily.

As a result, during the second quarter net sales increased by 2,158 million yen (8.1%) year on year to 28,758 million yen. Operating income decreased by 869 million yen (17.2%) year on year to 4,192 million yen, profit before income taxes for the period decreased by 930 million yen (18.8%) year on year to 4,014 million yen. Profit for the period attributable to owners of the parent decreased by 619 million yen (19.3%) year on year to 2,595 million yen.

Note:

1. Based on MM Research Institute Building-wide ISP Services to Condominiums Market Share Survey (as of end of March 2022). Including before the ARTERIA Networks Corporation merger. Post-merger for 5 consecutive years.
2. 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. Network Functions Virtualization
3. Network Functions Virtualization

(2) Financial Position

	March 31, 2022	September 30, 2022	Change
Total assets (millions of yen)	99,081	97,949	(1,131)
Total equity (millions of yen)	27,930	28,775	844
Equity attributable to owners of the parent (millions of yen)	26,017	27,069	1,052
Ratio of equity attributable to owners of the parent (%)	26.3	27.6	1.4
Balance of borrowings (millions of yen)	36,163	37,932	1,768

During the second quarter, total assets decreased by 1,131 million yen from the end of the previous fiscal year, to 97,949 million yen. Equity attributable to owners of the parent increased by 1,052 million yen year on year, to 27,069 million yen. As a result, the ratio of equity attributable to owners of the parent amounted to 27.6%.

The balance of borrowings increased by 1,768 million yen year on year, to 37,932 million yen.

Overview of Cash Flows

During the second quarter, the balance of cash and cash equivalents decreased by 5,379 million yen year on year, to 2,829 million yen.

(Cash flows from operating activities)

An increase in income taxes paid resulted in a decrease of 151 million yen year on year in cash generated by operating activities, to 4,519 million yen.

(Cash flows from investing activities)

As a result of decreased proceeds from selling fixed assets, no proceeds from sale of investment securities as well as the purchase of investments accounted for using the equity method, cash used for investing activities increased by 6,211 million yen year on year, to 7,845 million yen.

Consequently, free cash flow (*) in the second quarter decreased by 6,363 million yen year on year to 3,325 million yen cash used.

(Cash flows from financing activities)

Cash used for financing activities decreased by 4,153 million yen year on year, to 1,632 million yen, due to a decrease in dividends paid, as a result of the introduction of interim dividends during the previous fiscal year, and increased 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)	Second quarter of the current fiscal year (September 30, 2022)
	Millions of yen	Millions of yen
Assets		
Current assets		
Cash and cash equivalents	7,781	2,829
Trade and other receivables	8,258	8,040
Other financial assets	5	22
Inventories	275	342
Other current assets	2,395	2,792
Total current assets	18,715	14,026
Non-current assets		
Property, plant and equipment	41,775	43,954
Goodwill	12,646	12,646
Intangible assets	15,052	14,754
Investments accounted for using equity method	-	1,771
Other financial assets	8,017	7,822
Deferred tax assets	1,923	1,685
Other non-current assets	950	1,287
Total non-current assets	80,365	83,923
Total assets	99,081	97,949

	Previous fiscal year (March 31, 2022)	Second quarter of the current fiscal year (September 30, 2022)
	Millions of yen	Millions of yen
Liabilities and Equity		
Liabilities		
Current liabilities		
Borrowings	36,163	37,932
Trade and other payables	7,655	6,152
Lease liabilities	2,630	2,301
Income and other taxes payable	2,519	910
Provisions	182	182
Other current liabilities	4,611	4,252
Total current liabilities	53,762	51,731
Non-current liabilities		
Long-term lease liabilities	8,508	8,713
Retirement benefit liabilities	906	971
Provisions	3,704	3,742
Deferred tax liabilities	2,320	2,234
Other non-current liabilities	1,948	1,782
Total non-current liabilities	17,388	17,443
Total liabilities	71,151	69,174
Equity		
Common stock	5,150	5,150
Capital surplus	4,703	4,729
Retained earnings	16,485	17,511
Treasury stock	(322)	(322)
Other components of equity	(0)	0
Total equity attributable to owners of the parent	26,017	27,069
Non-controlling interests	1,913	1,705
Total equity	27,930	28,775
Total liabilities and equity	99,081	97,949

(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, 2021 (From April 1, 2021 To September 30, 2021)	For the six-month period ended September 30, 2022 (From April 1, 2022 To September 30, 2022)
	Millions of yen	Millions of yen
Net sales	26,599	28,758
Cost of sales	18,132	19,560
Gross profit	8,467	9,197
Selling, general and administrative expenses	4,515	5,045
Other income	1,247	97
Other expenses	137	57
Operating profit	5,061	4,192
Finance income	122	64
Finance costs	238	243
Share of profit (loss) of investments accounted for using equity method	-	0
Profit for the period before income taxes	4,945	4,014
Income taxes	1,553	1,216
Profit for the period	<u>3,392</u>	<u>2,798</u>
Profit for the period attributable to:		
Owners of the parent	3,214	2,595
Non-controlling interests	177	203
Profit for the period	<u>3,392</u>	<u>2,798</u>
Earnings per share		
Basic earnings per share (yen)	64.37	52.01
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, 2021 (From April 1, 2021 To September 30, 2021)	For the six-month period ended September 30, 2022 (From April 1, 2022 To September 30, 2022)
	Millions of yen	Millions of yen
Profit for the period	3,392	2,798
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	758	0
Total items that will not be reclassified to profit or loss	758	0
Total other comprehensive income, net of tax	758	0
Comprehensive income for the period	<u>4,150</u>	<u>2,799</u>
Comprehensive income for the period attributable to:		
Owners of parent	3,973	2,595
Non-controlling interests	177	203
Comprehensive income for the period	<u>4,150</u>	<u>2,799</u>

(3) Quarterly Condensed Consolidated Statement of Changes in Equity
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		
	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	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

For the six-month period ended September 30, 2022 (From April 1, 2022 To September 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	-	-	2,595	-	-	-
Other comprehensive income	-	-	-	-	0	0
Comprehensive income for the period	-	-	2,595	-	0	0
Cash dividends	-	-	(1,568)	-	-	-
Share-based payment transactions	-	25	-	-	-	-
Total transactions with owners	-	25	(1,568)	-	-	-
As of September 30, 2022	5,150	4,729	17,511	(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	2,595	203	2,798
Other comprehensive income	0	-	0
Comprehensive income for the period	2,595	203	2,799
Cash dividends	(1,568)	(411)	(1,980)
Share-based payment transactions	25	-	25
Total transactions with owners	(1,543)	(411)	(1,954)
As of September 30, 2022	27,069	1,705	28,775

(4) Quarterly Condensed Consolidated Statement of Cash Flows

	For the six-month period ended September 30, 2021 (From April 1, 2021 To September 30, 2021)	For the six-month period ended September 30, 2022 (From April 1, 2022 To September 30, 2022)
	Millions of yen	Millions of yen
Cash flows from operating activities		
Profit for the period before income taxes	4,945	4,014
Depreciation and amortization	4,281	4,663
Finance income	(122)	(64)
Finance costs	238	243
Share of loss (profit) of investments accounted for using equity method	-	(0)
Loss on disposal of property, plant and equipment	104	40
Decrease (increase) in trade and other receivables	578	212
Decrease (increase) in inventories	(6)	0
(Decrease) increase in trade and other payables	(1,028)	(527)
Gain on sale of fixed assets and transfer of customer contract	(1,200)	(30)
Other	(703)	(1,268)
Subtotal	7,088	7,283
Interest received	40	51
Dividend income received	68	-
Interest paid	(183)	(190)
Income taxes paid	(2,342)	(2,624)
Net cash provided by (used in) operating activities	4,671	4,519
Cash flows from investing activities		
Purchases of property, plant and equipment	(4,380)	(5,677)
Proceeds from sale of property, plant and equipment	1,919	274
Disposals of property, plant and equipment	(226)	(127)
Purchases of intangible assets	(360)	(410)
Purchases of investments accounted for using equity method	-	(1,771)
Proceeds from sale of investment securities	1,500	-
Other	(85)	(132)
Net cash (used in) provided by investing activities	(1,633)	(7,845)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	-	3,000
Repayments of long-term borrowings	(1,120)	(1,272)
Repayments of lease liabilities	(1,224)	(1,371)
Dividends paid	(2,766)	(1,568)
Dividends paid to non-controlling interests	(423)	(411)
Purchase of treasury stock	(242)	-
Other	(8)	(8)
Net cash (used in) provided by financing activities	(5,786)	(1,632)
Net effect of currency translation on cash and cash equivalents	0	5
Net (decrease) increase in cash and cash equivalents	(2,747)	(4,951)
Cash and cash equivalents at the beginning of the period	10,957	7,781
Cash and cash equivalents at the end of the period	8,209	2,829

(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.