



ARTERIA

FY2022H1 Earnings Results Briefing

March 31, 2023

November 21, 2022

ARTERIA Networks Corporation

FY2022H1 Earnings Results Briefing

Date

November 21, 2022

Meeting Participants

Koji Kabumoto
Seiichi Tateishi
Kazunori Ohashi

Representative Director, President & CEO
Managing Executive Officer & CFO
Managing Executive Officer & CDO

FY2022H1 Highlights

- Recurring businesses are driving steady earnings.
- Achieved revenue growth rate of 7.0% YoY in core services *1 in FY2022H1. Capture demand growth by responding to soaring needs for high-speed and secure network services, driven by expanded cloud usage and telecommuting.
- Recorded one-time costs relating to the establishment of investigation committee, earnings forecasts for FY2022 unchanged.
- D&A will increase as a result of higher CAPEX, the structural reorganization executed in FY2021 will allow us to control network costs. Adjusting for the disposal gain on partial transfer of a data center recorded in FY2021 and the one-time costs incurred in FY2022 operating income is expanding.

*1 Refers to "Internet", "Network", "Condo", "DX"

ARTERIA 4

Kabumoto: This is Kabumoto. Thank you for joining us today. I would like to begin by explaining the highlights of our business performance for H1 of the fiscal year ending March 2023.

Overall, we believe that performance has been favorable, especially in existing ongoing businesses.

As for sales by core service, as you may have heard, the use of cloud computing and the spread of teleworking have led to high demand for high-speed communications and highly secure networks, and our sales have increased 7% YoY.

On the cost front, the structural reforms we implemented last fiscal year have had a positive effect, but on the other hand, we incurred expenses in H1 of the fiscal year related to the establishment of the Investigation Committee, which has caused great concern to many of you. As already announced, we have incurred about JPY300 million.

While such structural reforms have been implemented, the forecast for the fiscal year ending March 2023 remains unchanged, although there has been some downside due to onetime expenses.

In terms of profit compared to the same period of the previous year, depreciation expenses increased, but the absence of a gain of about JPY1.2 billion from the sale of the data center and the onetime cost of about JPY300 million for the Investigation Committee mentioned earlier resulted in a decrease in profit. However, excluding these items, operating profit on a steady basis continued to increase.

In the subsequent slides, I would like Mr. Tateishi to explain our financial information.

Financial Highlights

- Revenue growth but profit decline due to the disposal gain on transfer of data center recorded in FY2021H1.

(Billions of yen)

	FY2021H1	FY2022H1	Change	Ratio
Net sales	26.6	28.8	+2.2	+8.1%
Operating profit	5.1	4.2	△0.9	△17.2%
Profit before tax	4.9	4.0	△0.9	△18.8%
Profit	3.4	2.8	△0.6	△17.5%
Profit attributable to owners *	3.2	2.6	△0.6	△19.3%

*Profit attributable to owners of the parent

ARTERIA 5

Tateishi: I'm Tateishi, CFO. I will now explain the financial statements and key analysis.

This slide is a summary of financial highlights.

First, for top line, sales increased by JPY2.2 billion, or 8.1%, mainly due to recurring revenue. The analysis by core service will be explained later.

As Mr. Kabumoto mentioned earlier, the profit at each stage below sales has decreased by more than 10%, as you can see, due to the absence of the gain on the transfer of the data center in the previous period and onetime expenses related to the Investigation Committee in the current period. The analysis, excluding the impact of these onetime gains and losses, will be explained on the slides that follow.

Forecasts

- Net sales progress approx. 50%, all profit levels showing progress of around 43%.
- No change in FY2022 forecast.

(Billions of yen)

	FY2022 (forecast)	FY2022H1	Progress
Net sales	58.0	28.8	49.6%
Core services sales	48.3	23.5	48.9%
Operating profit	9.7	4.2	43.4%
Profit before tax	9.3	4.0	43.1%
Profit	6.4	2.8	43.5%
Profit attributable to owners *	6.1	2.6	42.9%

*Profit attributable to owners of the parent

ARTERIA 6

Here is the percentage of progress regarding the forecast.

Sales are growing steadily, centered on monthly recurring charges, and the progress rate is approximately 50% after the half-year period. On the other hand, the progress rate of each stage of profit is around 43% due to the onetime expenses incurred by the Investigation Committee, et cetera, as mentioned earlier.

In H1, the core services continued to increase revenue, mainly from recurring revenue. In addition, we believe that gross profit is growing steadily as a result of cost control through structural reforms. In H2 of the fiscal year, we expect to achieve our initial forecast by continuing this trend of revenue growth and developing cost controls.

Analysis of FY2022H1

- Growth rate of core services*1 was 7.0% YoY.
- FY2022 forecast remains unchanged; recurring revenue from orders received in FY2022 will contribute to sales in FY2022H2 and the structural reorganization (executed in FY2021) will allow us to control network costs.
- Investigation costs*2 of approx. 0.3bn yen impacted operating profit. Adjusting for one-time gains and losses operating profit increased by approx. 0.6bn yen YoY.

(Billions of yen)

	FY2020H1 Actual	FY2021H1 Actual	FY2022H1 Actual
Sales	25.9	26.6	28.8
Revenue of core services	20.8	22.0	23.5
Revenue growth rate of core services	3.3%	5.5%	7.0%
Operating profit	4.2	5.1	4.2
Disposal gain on the partial transfer of the data center business		▲ 1.2	
Investigation costs			+0.3
Adjusted profit	4.2	3.9	4.5
Adjusted profit margin	16.1%	14.5%	15.6%

*1 Refers to "Internet", "Network", "Condo", "DX"

*2 Investigation and other costs relating to the establishment of an investigation committee, as per our disclosure on June 13, 2022

ARTERIA 7

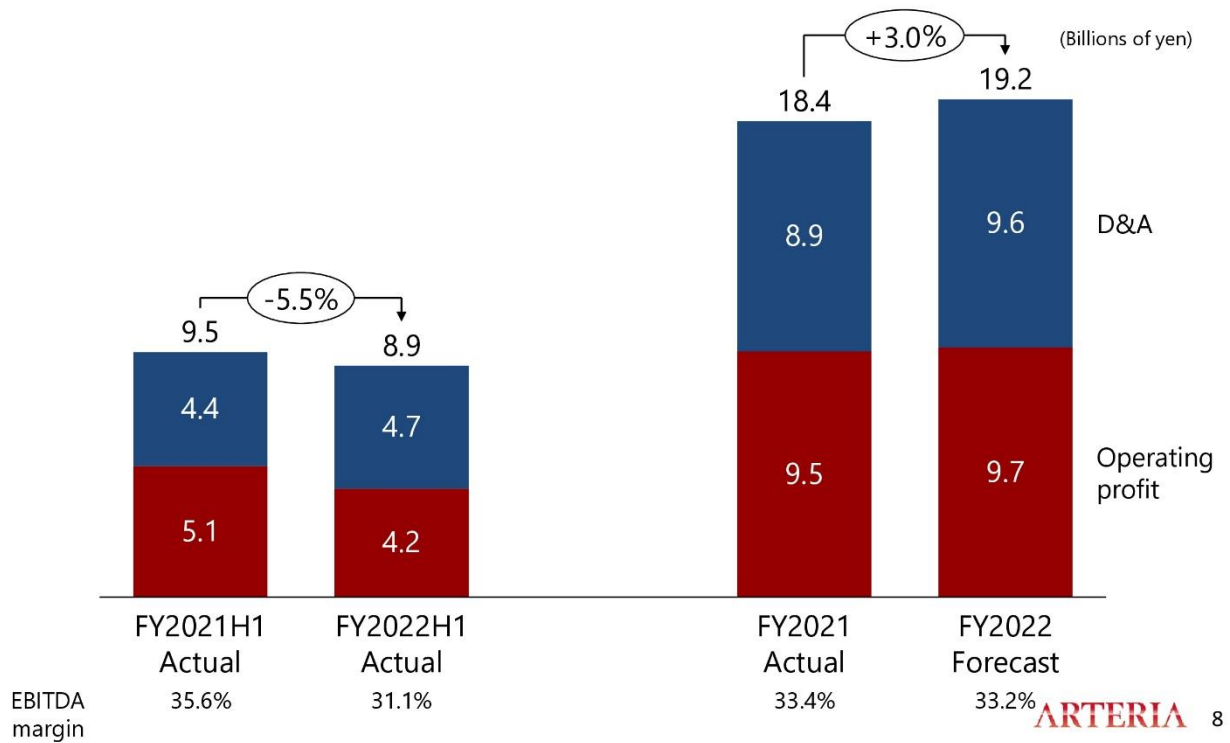
This is an analysis material that adjusts the gain on transfer of the data center that occurred in the previous fiscal year and the onetime profit and loss of temporary expenses, such as the Investigation Committee in this fiscal year.

In the previous fiscal year, there was a gain of approximately JPY1.2 billion from the transfer of the data center, then there is a onetime expense of JPY300 million for the Investigation Committee incurred this fiscal year. Adjusted operating profit after adding and subtracting these items was JPY4.5 billion, up JPY600 million from JPY3.9 billion in the previous year, and we believe that the profit margin for the steady-state portion of the business is improving.

Adjusted operating profit also improved by more than approximately 1%, from 14.5% in the previous year, to 15.6%. We would like to continue with this trend.

EBITDA

➤ EBITDA declined by 5.5%, to 8.9bn during FY2022H1, FY2022 forecast at 19.2bn.

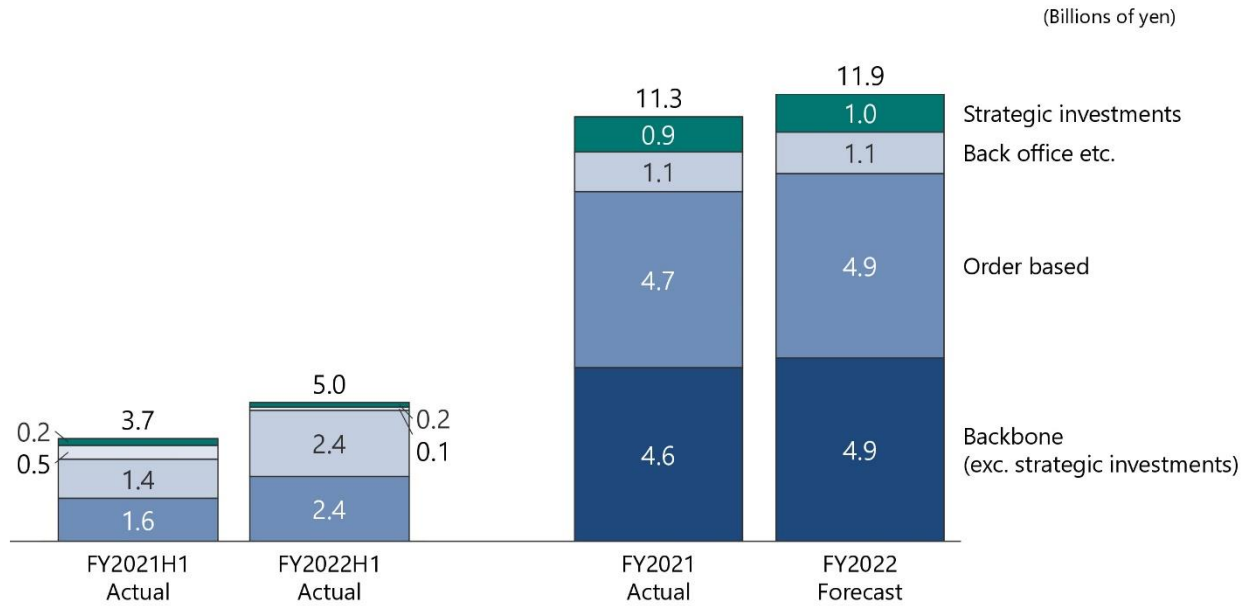


EBITDA. EBITDA margins have been maintained at around 30% on an ongoing basis.

In H1 of the current fiscal year, EBIT itself has decreased due to the lack of onetime earnings as in the previous fiscal year, and EBITDA has also decreased by more than 5%. However, if we achieve H2 earnings forecast base, we tentatively estimate a 3% growth of JPY19.2 billion, including an increase in depreciation.

CAPEX

- FY2022H1 CAPEX on track at 5.0bn (1.3bn increase YoY), mainly order based CAPEX and network enhancement.
- FY2022H2 forecast at 6.9bn



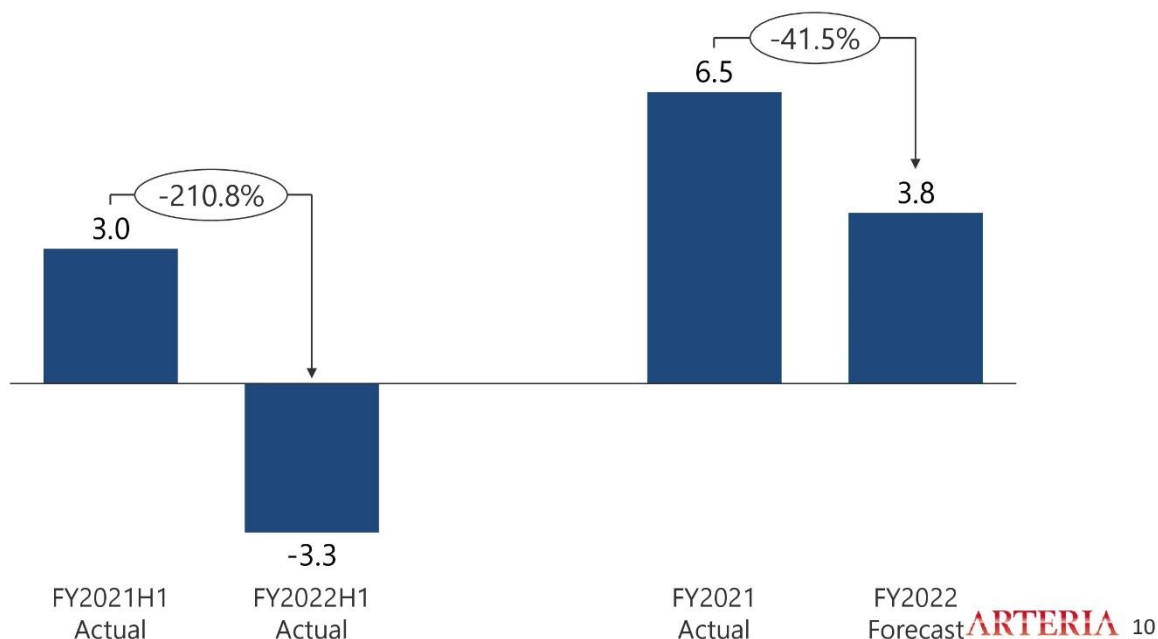
*Increases in assets due to the adoption of IFRS 16 and reclassification of inventory to fixed assets according to IFRS are excluded.

CapEx, capital expenditures. Results for H1 of the fiscal year were JPY5 billion.

Against the backdrop of strong orders, procurement of equipment required for network construction is proceeding ahead of initial plans. This impact has increased from the previous year. It is going well. For the full year, we expect to achieve a little less than JPY12 billion, in line with our previous forecast.

FCF

- FCF in FY2021H1 was approx. 3.0bn due to transfer of data center business, decreased to -3.3bn in FY2022H1 due to share acquisition of GameWith and taxes paid.
- FY2022 forecast at 3.8bn due to acquisition of GameWith shares. (Billions of yen)



This is a breakdown of free cash flow.

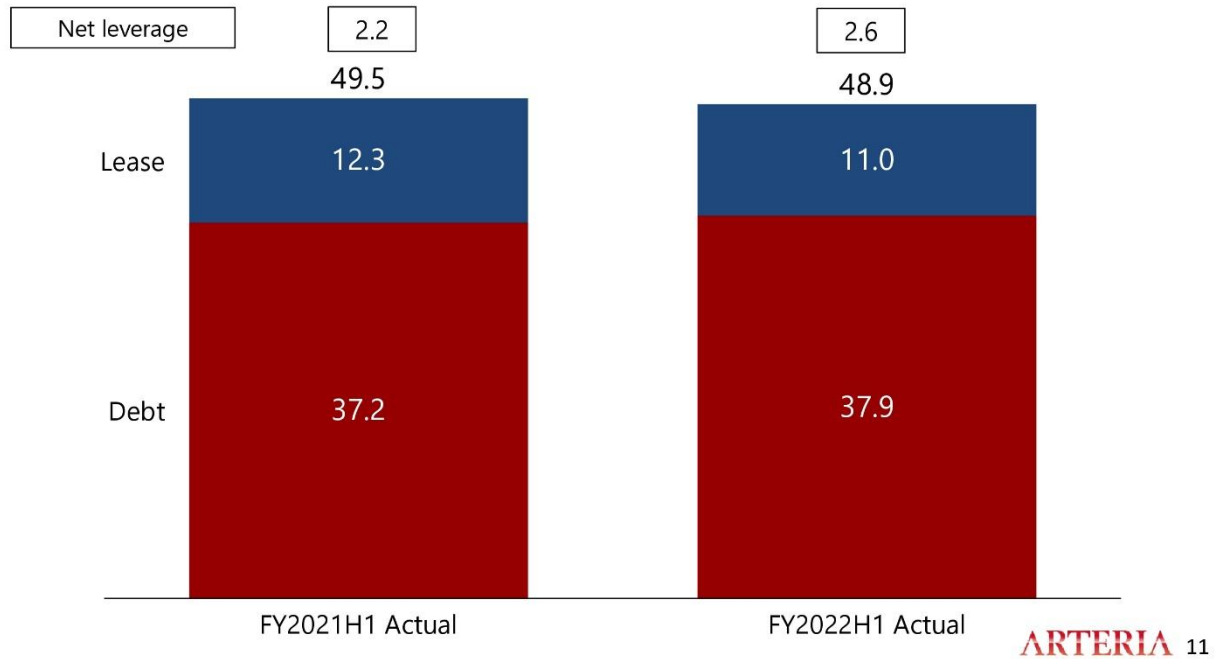
In H1 of the previous fiscal year, the Company secured an inflow of JPY3 billion due to proceeds from the sale of data centers and investments in affiliated companies. On the other hand, there was a temporary factor, such as the acquisition of GameWith shares in this fiscal year, and in addition, there was an increase in corporate tax payments, et cetera, resulting in a minus JPY3.3 billion.

On a full year basis, we estimate that including the acquisition of GameWith shares we will generate about JPY3.8 billion in FCF.

Capital Structure

- Slight decrease in borrowings.

(Billions of yen)



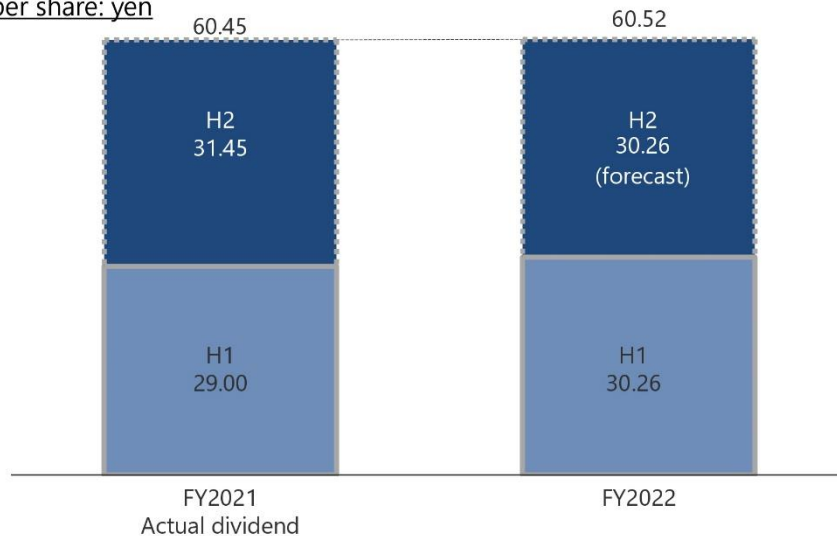
This is the status of the capital structure.

The net leverage itself has increased from 2.2 to 2.6 due to a slight decrease in liquidity on hand, but the actual balance itself has slightly decreased in growth. There are no major changes.

Dividend Policy

- Forecasted minimum dividend for FY2022, paid out as interim and year-end.
- Dividend for FY2022H1 is scheduled to be 30.26 yen.
- Sustain 50% payout ratio.

Dividends per share: yen



ARTERIA 12

The last part of the financial information is the dividend policy.

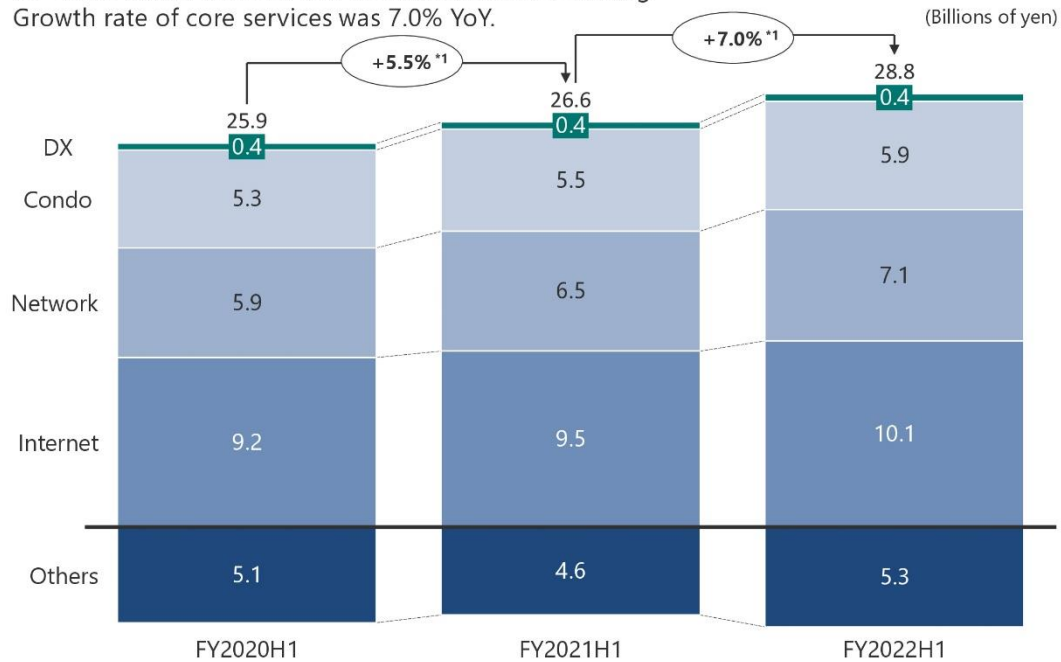
There will be no change in our dividend policy from what has been announced so far. Since the previous fiscal year, the Company has paid dividends twice a year, with the minimum number of dividends forecasted at the beginning of the fiscal year.

The dividend for H1 of the fiscal year is JPY30.26 per share, as forecasted at the beginning of the fiscal year, for a payout ratio of 50%. There is no change in the full year dividend.

That concludes my report on the financial situation.

Revenue by Service

- Revenue of core services *1 grew as sales activities progressed supported by growing demand for cloud-based services and increase in telecommuting.
- Growth rate of core services was 7.0% YoY.



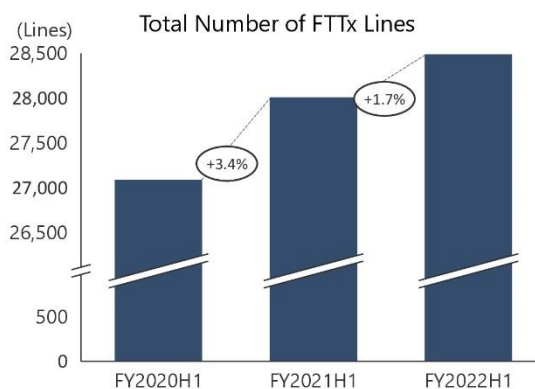
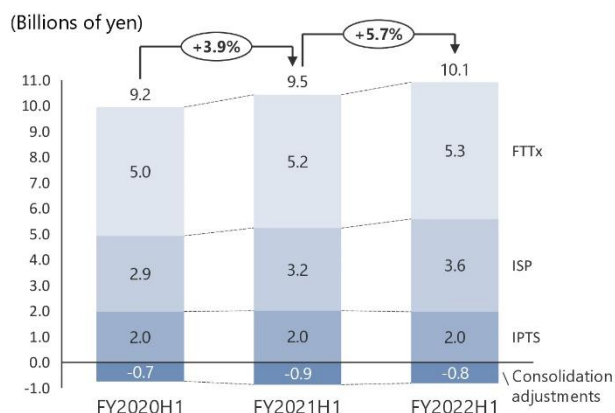
*1 Growth rate of core services (excluding others)

ARTERIA 14

Kabumoto: Next, I will explain the results and forecast by service and growth strategies.

As I mentioned earlier, the core services have been growing on the back of cloud computing and teleworking, with 7% growth for the core services and 8% for the total.

Internet



FTTx

- Cloud usage and the spread of telecommuting remain growth drivers and the expansion of our network areas is ongoing.

ISP

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

IPTS

- Demand from cloud service providers^(note) continues to expand.
- Decided to withdraw or downsize the incoming access charge business^(note).

	FY2020H1	FY2021H1	FY2022H1
Total number of lines	27,084	28,003	28,484

The growth of the total number of lines has slowed down, but the demand for broadband services has increased, and the unit price per line has risen. Area expansion is expected to drive further growth in FY2023.

ARTERIA 15

First, the Internet. We have FTTx and ISP here, and also IPTS.

As for FTTx, there has been growth, but as you can see on the right side, although the growth in the total number of lines has slowed down, demand for broadband services, i.e., rather expensive products, is selling well.

As we have already mentioned, we are expanding the FTTx area and taking measures to prevent the aging of FTTx, and the contribution of these measures will appear in the next fiscal year. Although the growth in the number of lines in the current term itself was somewhat gradual, we have achieved an increase in sales due to the increase in ARPU.

In the next fiscal year, the number of lines itself is expected to grow as we continue to expand the area and take measures to prevent the aging of the system.

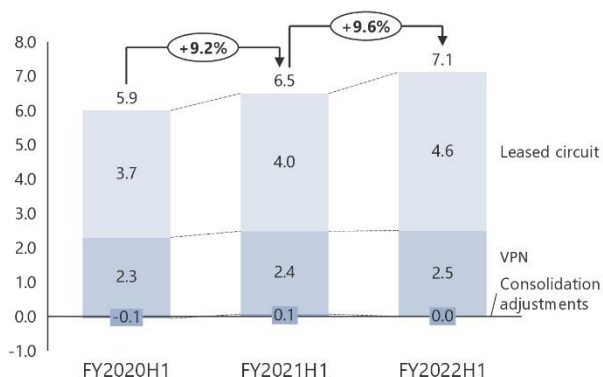
As for ISP, as you can see, they are growing very steadily. Cross Pass, an ISP service using NTT East and NTT West FLET'S service, is in the process of growing.

IPTS has been flat. We have more opportunities to sell more lines to cloud PBX providers, but on the other hand, as I mentioned earlier, we have decided to withdraw or reduce the incoming call access charge business and have already started to do so.

Therefore, we expect a slight decrease in this field in the current fiscal year, but we believe that this will be sufficiently covered by other services.

Network

(Billions of yen)



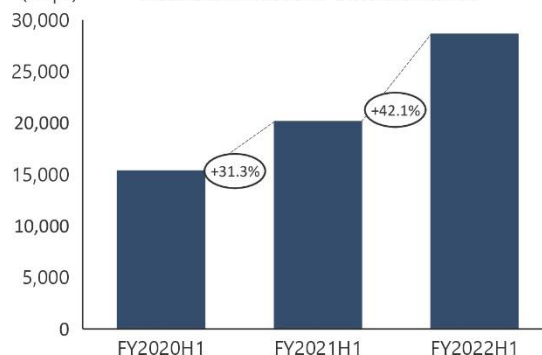
Leased circuit

- 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.
- Proactively enhancing our network in areas where there is high demand, such as Tokyo-Nagoya-Osaka and data center parks.

VPN

- 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.

(Gbps) Total Bandwidth of Ethernet Lines



	FY2020H1	FY2021H1	FY2022H1
Total bandwidth*1 (Gbps)	15,333	20,124	28,602

The growth rate in FY2022H1 is 42.1% YoY due to sales to telecommunications carriers and the public sector.

*1 Total bandwidth = service bandwidth × number of lines

ARTERIA 16

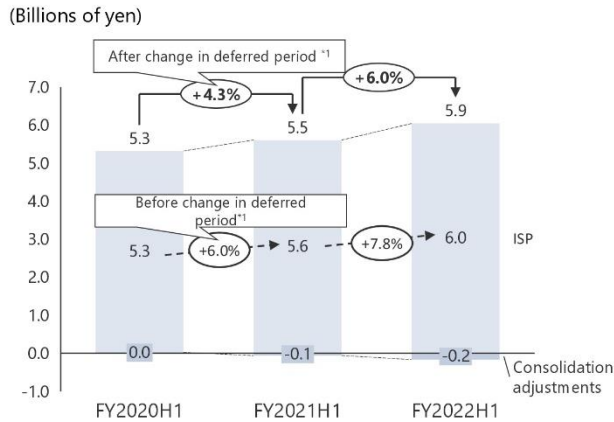
Network. Leased circuit and VPN also increased by 9.6% YoY. Among these, the leased circuit service has shown very high growth.

Demand from a wide range of customers, including general companies, OTTs, and telecommunications carriers, is expanding. The growth and use of data centers in Tokyo, Nagoya, and Osaka is also expanding, which means that our leased line sales are growing very steadily.

As you can see in the graph on the right, the total bandwidth of Ethernet leased lines, which is used as a KPI, is growing at an even faster rate than in the previous year. As you can see, this only shows the status of leased circuits, so I am sure that if we include other items, the growth would be much greater.

As for VPN services, VANILA, a cloud service, which was launched this fiscal year, is expanding steadily, and the number of inquiries is increasing. We expect further growth in the future.

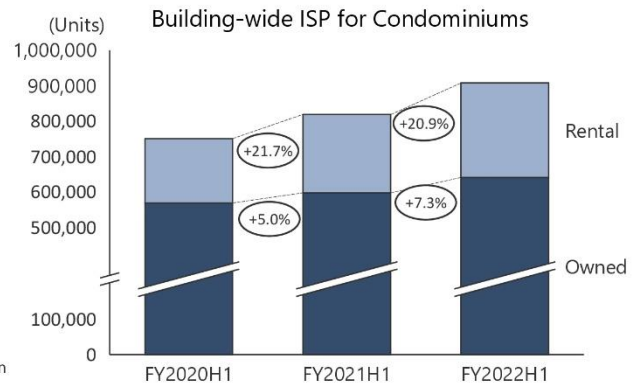
Condominium Internet



Condo

- The number of paying units for both owned and rental are steadily increasing, and sales are also increasing.
- Demand for high-quality services is increasing due to telecommuting and the spread of video distribution services.
- In order to respond to the expected increase in demand for high-quality services, we introduced a new service with a maximum capacity of 10 Gbps that installs optical fiber to each unit.

*1 Refers to the revenue recognition standard in Japanese standards from April 2021



	FY2020H1	FY2021H1	FY2022H1
Rental	181,509	220,898	267,124
Owned	568,963	597,635	641,070

Owned is steadily growing supported by stable orders from major and small to medium-sized developers, as well as orders for large-scale buildings in central Tokyo and building refurbishments.

In rental, we are steadily accumulating orders for medium-sized buildings, mainly from partners such as management companies and developers, and we sustain a high growth rate.

ARTERIA 17

The condominium Internet increased by 6% YoY.

The number of units charged to the owned and rental markets, which we set as a KPI, has increased by the same amount or more compared to the previous fiscal year.

We introduced a new service with a maximum capacity of 10 Gbps, that installs optical fiber to each unit, so we are doing very well in this field, including the expansion of our service lineup.

I think there was some concern last time about this field, but we are seeing very good growth here. I think the number of units acquired has increased even more than last year.

Mid-Term Plan Review in FY2022H1

1. Measures for growing the core business

- Enhanced leased circuit rings in the Tokyo, Nagoya and Osaka areas, where demand is high. Update and area expansion of FTTx network.
- Expanded the service lineup of the NFV^(note) service "VANILA"^(note) and increased orders.
- Development Corporation "Far North Fiber, Inc." was formed for Trans-Arctic Fiber Cable connecting Europe to Asia on October 3.
- Won first place in the customer satisfaction survey in the network service category of the Nikkei Computer Customer Satisfaction Survey 2022-2023 published on the September 1.
- Acquired leading market share for 9 consecutive years in "MM Research Institute, whole-building type ISP for condominiums in Japan (March 2022)"^{*1}

2. Measures for incorporating a new growth portfolio

- Service Platform for D2C service "Portas"^(note) launched in Q1.
- Executed a joint capital investment with GameWith, Inc. which operates largest game strategy site in Japan, and made into group company.
- Started providing GameWith Hikari, a high-quality service for eSports as the second communication service for D2C after "Connectix"^(note).

3. Pursue planet-friendly management by addressing workstyle reform (Hatarakikata Kaikaku) and SDGs

- Engaging in company-wide activities based on a Basic Sustainability Policy and published results of efforts from FY2021 on our corporate website.
- Completed launch of all planned satellite offices and started reforming headquarter to maximize productivity.

^{*1} Group Company - TSUNAGU NETWORK COMMUNICATIONS INC. acquired leading market share in the survey "MM Research Institute, whole building type ISP for condominiums in Japan (March 2022)". It concludes the results before the business integration with ARTERIA Networks Corporation, and it's the 5th consecutive year after the business integration.

^{*2} Refers to UCOM Hikari Residence (including Five.A) and e-mansion provided by group company TSUNAGU NETWORK NETWORK COMMUNICATIONS INC.

I would like to explain a little about the progress of the measures in our mid-term management plan.

The first point is the growth of our core business, which is our number one priority, and the core business is growing very smoothly.

I believe that we will be able to do even better if the FTTx area is expanded. NFV and VANILA, which we started this fiscal year, are also going well.

In addition, as a medium- to long-term initiative, we have established a company called Far North Fiber in the United States as a joint venture among three companies for a submarine cable project in the Arctic Ocean and are now in full-scale activities.

Lastly, as shown on the first page, we won first place in the network category of the *Nikkei Computer* Customer Satisfaction Survey this fiscal year. Unfortunately, we did not win first place last year, but we are back this year.

In addition, for the ninth year in a row, we have been ranked number one in terms of ISP market share by MM Research Institute for whole-building type ISP for condominiums.

Regarding the second point, the incorporation of a new growth portfolio, in the DX business, we started providing a platform, Portas, in Q1. Managing Executive Officer Ohashi will explain the details later.

In addition to services for condominium residents, as part of our M&A strategy to attract customers in the e-sports market, we have invested in GameWith, which operates one of Japan's largest game strategy sites. We are in the process of forming a capital and business alliance.

Third, regarding workstyle reform, we have formulated a basic sustainability plan and are currently working on it, with 40 to 50 subcommittees, each with its own KPI and KGI.

We are working to create a company that is easy to work for, including reforms in the way we work. We have four satellite offices, and we expect to start renovations at our head office this fiscal year.

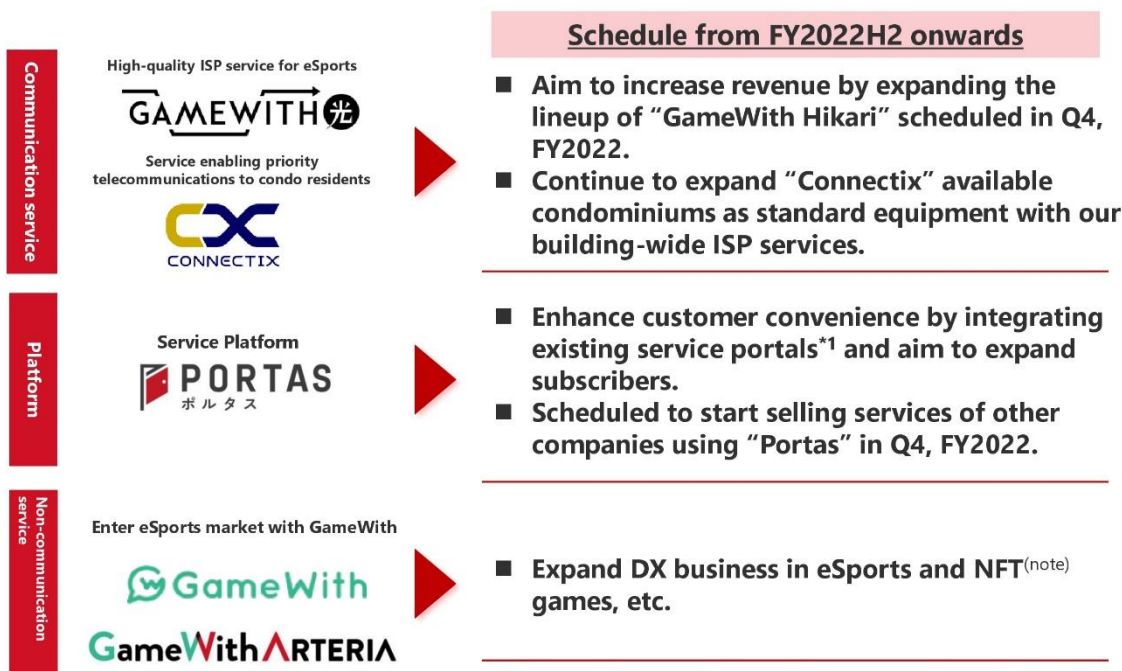
This was a brief explanation of the measures in the mid-term management plan.

Continuing with this new growth portfolio initiative, this one will be explained by CDO Ohashi. Thank you.

Measures for Incorporating a New Growth Portfolio

(Plans for DX services)

- In addition to developing and deploying communication services, full-scale entry into non-communication service by joint capital investment with GameWith, Inc.



*1 Refers to portal sites, EC sites, etc. for condominium residents provided by our group

ARTERIA 19

Ohashi: I’m Ohashi, CDO. I am in charge of new growth portfolio initiatives. Thank you.

As for progress, I would like to explain the status of our communication service, which are our forte, our platform, and thirdly, our noncommunication service, along with the future direction of each of these services.

First, in the area of communication service, as Mr. Kabumoto mentioned earlier, we have launched a second service called GameWith Hikari from Q1, following Connectix, a communication service. This service is being launched in partnership with GameWith, a well-known company in the market, targeting e-sports game players who request the high-quality low latency service. Sales have been very strong.

We hope to further expand our lineup toward the end of this fiscal year, when we should be capturing strong demand, and to promote the spread of low-latency broadband and expand our business there.

As for Connectix, demand for high-speed, high-grade services, not just connectivity, has been increasing for building-wide ISP services for condominiums. It has been very well-received by our customers, such as developers and rental management companies.

At the same time, it was decided in Q1 that Connectix can be introduced to our small-scale condominium, building-wide Internet service, and we are now planning to expand the Connectix business by offering it as a standard part of all our services.

In Internet services, there is a growing demand for higher quality and higher standard than simply being able to connect. We hope to expand the introduction of Connectix in anticipation of more vigorous demand for this type of service.

In the second field, for platform, we released Portas, a platform that provides various services, in Q1. We are expanding our services with a cloud-native, scalable and flexible design, and an agile development method that allows us to release various services sequentially.

Toward the end of this fiscal year, we are working on a system to provide not only our services but also those of other companies, and we have already begun trials for some of them. We would like to proceed so that we can start full-scale sales of the service towards the end of this fiscal year.

Finally, for noncommunication service, as Mr. Kabumoto mentioned earlier, we have invested in GameWith ARTERIA, a joint venture with GameWith, as well as in GameWith itself, and have formed a capital and business alliance.

We are currently collaborating in the operation of e-sports studios through a communication service called GameWith Hikari, but we would like to expand our business in new areas, such as NFT, in the field of non communication services.

In addition to that, we would like to continue to expand such initiatives by expanding the scope to new fields as part of our M&A strategy.

That's all for my explanation.

Thank you for your attention.

Connecting New Abilities

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Question & Answer

Question: have three questions.

First, the increase in adjusted operating profit on page seven shows that cost reforms have made significant progress, and I am very happy to see that operating profit increased by about JPY600 million on an adjusted basis for the fiscal year.

On the other hand, looking at the Company's plan for H2 of the fiscal year, I am concerned that you will have to increase profits after adjustments in H2 of the fiscal year a little more.

Is this unchanged in H2 of the fiscal year because the effects of structural reforms will be more apparent in H2 of the fiscal year than in H1 of the fiscal year? I would like to ask you about the background behind this unchanged plan for this fiscal year and also about the current progress of structural reforms. This is my first question.

Kabumoto : Thank you very much.

I think your question is that the adjusted profit on page seven is good for an increase in profit, but we have to work even harder in H2. You are concerned with this point.

As you mentioned, our sales are at 49% of the total, and from the characteristics of our company, we will continue to win projects and monthly charges in H2 of the fiscal year, so we can expect sales to exceed this level if all goes well. However, compared to this, the lower-tier profits are slightly less favorable.

As I mentioned earlier, our company is an accumulation-type company, so projects acquired in H1 of the fiscal year will appear in H2 of the fiscal year as is. I think you are saying that it's not a problem that H1 is lower, but I think it's a little too low.

Costs Breakdown

(Millions of yen)

	FY2021H1	FY2022H1
COGS	18,132	19,560
Communication costs	5,754	5,940
Outsourcing	2,741	2,798
Personnel expenses	1,383	1,625
D&A	3,568	3,940
Other	4,688	5,257
SG&A	4,515	5,045
Personnel expenses	2,048	2,149
D&A	714	723
Commissions and other fees	492	849
Outsourcing	548	578
Agent fee and promotion	215	218
Other	499	527

ARTERIA 22

As you can see from the structural reforms, the growth of communication costs in relation to our sales this time is about JPY200 million, as shown in the appendix. Since we expect the growth of so-called monthly communication to be approximately JPY1.5 billion in H1 of the fiscal year, we believe that our structural reforms are working very well because we were able to limit the growth of communication expenses to JPY200 million against the growth of JPY1.5 billion.

However, there are some areas where we thought we could make further structural reforms, and we are currently working on them and are in the process of making further structural reforms. In H2 of the fiscal year, we believe we will achieve that.

In our case, we have our own communications infrastructure, which makes it possible for us to control cost growth, and we believe that we have been able to do this successfully.

Question: Thank you.

Can I assume that the growth of communication expenses will be limited to about JPY200 million in H2 of the fiscal year, and that communication expenses will not grow that much in the next fiscal year and beyond? Or if the growth of communication costs is fairly controlled, would it be better to see this fiscal year as a sort of structural reform effect and organic growth in the next fiscal year and beyond?

Kabumoto: In our case, we have our own infrastructure to a great extent, and while we would naturally see growth if we leased from other companies, in our case, the increase is not linear compared to the growth in sales. We are taking such measures.

As you saw earlier, there is a 49% (SIC) growth in the total bandwidth of leased circuits, but I believe that the growth in our communication costs is shown in the fact that we have kept our communication costs down to JPY200 million.

Question: I understand very well. Thank you. I have two more questions.

Secondly, in this quarter, sales of DX increased relatively QoQ. Does this mean that various new measures are becoming apparent? Or is it due to other factors? Could you tell us a little about the factors behind the increase in DX sales in Q2? This is the second question.

Ohashi: Thank you very much for the question.

We have started various services in Q2, and we believe these have had an impact.

Kabumoto: I am very happy to hear that our sales have grown, but we would like to make them grow a little more. I think we need to work a little harder.

Question: Thank you.

Will this QoQ growth continue in Q3 and beyond? Or since a new service was launched in Q2, was it a stair-step growth, or will it be flat from Q3 onward?

Ohashi: At the moment, it is basically a recurring service, so I think it will continue to grow as usual as before though. It is difficult to give a breakdown of just these figures for the future, so I would like to report back to you in the context of the overall situation.

Kabumoto: As Mr. Ohashi mentioned earlier, you are going to start a new service with GameWith in Q4 or so.

Ohashi: Yes, we will be expanding our new lineup.

Kabumoto: I have high expectations for that area.

Question Thank you. Lastly, I would like to ask the President to briefly comment on the progress of the mid-term plan at this point, where things are going well, where things are not going well, and a review of the current status. That's all. Thank you.

Kabumoto: Thank you. This is related to why we have the infrastructure that I mentioned last time. Communication will grow for the foreseeable future. The communication business is growing very fast. This is a definite point, as I have just shown you, and accordingly, we believe that our sales will grow sufficiently if we do well.

On the other hand, we have been able to control cost of sales through the use of structural reform expenses in the previous fiscal year, and we believe that we are making good progress in our basic mid-term plan of increasing sales and controlling costs.

Our sales figures may be for the current fiscal year, but they will directly affect the next fiscal year because we have a recurring business. We have stated that 93% of our sales are in the recurring business, and accordingly, we are gradually beginning to see the figures for the next fiscal year. We believe that we are on track to make a steady progress.

This is the biggest part of our mid-term plan, and we believe we are doing very well in how to capture the growth in communication and how to keep costs down.

As for DX, we consider it a challenge, so we are not looking at it in terms of profit so much in our mid-term plan, but we are taking on the challenge. We are still in the process.

In addition, as I mentioned earlier, we have recently been talking about submarine cables. I don't know if this is good news or bad news for you all, but we think this is a very meaningful project for us. Such projects are also appearing in other areas, besides the Arctic Ocean, and we believe that the communication is coming along very well.

Question: Thank you.

Regarding the first point, structural reforms may be a little behind, but if you look at the mid-term plan as a whole, should we not worry about it so much? Is it just a short-term thing, and it's going well toward the mid-term plan?

Kabumoto: Yes. We hope you understand that it will be even better.

Question: I understand. Thank you. That's all.

Kabumoto: Thank you.

Question: I have three questions.

The first question relates to the impact of inflation. I know that electricity and other costs have skyrocketed, but please tell me how much has been affected already and how much more will be affected in the future.

Kabumoto: The first question is how much of an impact does inflation have, and the first question is electricity.

As we have already mentioned, we sold our data center last year, and the electricity bill has certainly gone up. But the data center is basically charged directly to the customer, so there is no major impact on us.

In addition, electricity in normal operations is naturally affected, but not to a significant degree. Did I answer your question?

Question: I understand. Are there any other costs that should be of concern due to inflation?

Kabumoto: We have received requests to raise the price of equipment, and in fact, we have received such requests but on the other hand, we have accelerated the procurement of semiconductors since the impact of the price increase will be felt early on. We have been able to complete the procurement before the impact of the price increase is felt.

Although this has had some effect on cash flow, the price increase itself is not expected to have a significant impact at present.

Question: I understand. Thank you. Now for the second question. This is regarding the possibility of raising the price. Please let me know if you can pass on the price for condominium Internet and corporate networks, respectively. In particular, I assume that condominium Internet is a separate contract, but is it possible to change the service price? Thank you.

Kabumoto: I think everyone expects basic communication costs to go down year by year, even though I think the same is true for cell phones.

I think there is a possibility that this will be maintained without price reductions, but I think that price increases are very difficult to achieve in communications. Especially in the area of Internet access for condominiums, there is competition, so we are not thinking of raising prices too much.

Similarly, we are not thinking about raising prices for corporate customers, but on the other hand, as I said earlier, that ARPU is rising, the amount we receive is increasing due to the increase in capacity, then we think

that it is difficult to raise the unit price per bit or per gigabyte, although we do not think that the unit price per bit or per gigabyte will increase. It is difficult to raise the price by any means.

Question: Thank you very much. I would like to follow up on one point.

Is it your company's attitude of not raising prices, or is it contractually impossible to raise prices, especially for condominium Internet in the first place?

Kabumoto: A question specific to condominium Internet.

Question: Yes. How about specializing in condominium Internet and perhaps you can do it through individual contracts with respect to corporate Internet.

Kabumoto: That's what you mean. There is no indication that prices for condominium Internet cannot be raised.

Ohashi: It's basically a long-term contract. It is a long-term contract for six or seven years, so it is difficult to do right now.

Kabumoto: Yes.

Question: I see. Thank you. And with respect to corporate Internet?

Kabumoto: I think that if prices were to be raised in the telecommunications industry, NTT would probably lead the way, but I don't see it that way at present.

Question: I understand. Thank you. Now, let me ask the third question. I have a question regarding the arrest of an employee.

In Q1 and Q2, the Investigation Committee incurred investigation costs. Please tell us your thoughts on whether costs related to this matter will continue to be incurred in Q3 and beyond.

I also wonder if training alone is not sufficient in some respects for this to happen. Please tell us about your company's recognition of whether this is a problem of your corporate culture or an individual problem and what you are doing to address the issue. That's all.

Kabumoto: The third question concerns the arrest of our employee. As for the unauthorized use of the access charge, costs will not be incurred in H2 of the fiscal year.

As far as we know, it may be different if new facts come out, but I don't think there are any signs of that at present, so we don't think that new costs will be incurred.

In this case, the prosecution of the so-called access charge was not so much about the fraudulent use of the access charge as it was about the fraudulent use of the unlimited usage. However, I understand that unlimited calling only is not so profitable for the person who uses it illegally, and that there was fraud in combination with the access charge. After extensive investigation, there is no evidence that the Company, the organization, or any other person was involved in any way.

Unfortunately, we have determined that it was the wrongdoing of the individual, but on the other hand, we have given him the opportunity to do so, which is something we should regret. Therefore, as mentioned in the recommendations of the Investigation Committee, we believe that it is important to repeatedly talk to everyone about the importance of proper job rotation and employee training, although there is some question as to how far this will be effective.

However, in this case, I still believe that the crime was committed by an individual.

Question: I understand. Thank you. That is all from me.

Question: Could you tell me a couple of points regarding the competitive environment?

First, I understand that you are expanding the FTTx area, but I would like to know about the competition in this area. Electric power companies and So-net have been considerably strengthened. Looking at the communication volume of fixed traffic, optical demand seems to be slowing down a bit, so I have a mixed feeling about how area expansion will go. I'm worried and excited at the same time.

Please explain the performance impact and competitive environment associated with area expansion at this time. This is the first question.

Kabumoto: I think he is asking about the investment in FTTx, including area expansion and aging measures, and whether this is safe for the future of our company. So-net and other telecommunications subsidiaries of electric power companies are doing this, so I think he would like to know our competition.

We are selling FTTx, that is different from NTT, So-net, and other companies. In that it is dedicated FTTx, that is, we are selling high-spec FTTx that is not divided into 32 segments while other companies are dividing it into 32 segments. We expand our service area to where there is demand.

We are considering the Tokyo metropolitan area, major cities, Osaka, and Kyushu, et cetera, so we will provide a high-quality, high-speed Internet environment to areas where there is demand.

FTTx has been growing steadily for the past several years, although it has temporarily dropped a little, and we expect this trend to continue in the future.

Question: I understand very well. Thank you. The second point is also in the competitive environment and is related to data centers.

At the moment, network services and leased circuits are growing significantly, but I've heard some rumors about whether it's okay to invest in GAFAM.

Is it safe to assume that demand inquiries for your network services have remained unchanged so far and continue to grow steadily in H2 of the fiscal year and beyond? Thank you.

Kabumoto: We sold the data center itself last time, but as you can see, many data centers themselves are being built and various companies are entering the market, so there is quite a lot of demand.

Therefore, I would say that demand for our network is also very strong. We have heard of some restructuring moves at GAFA, so we do not see any decline in demand for telecommunications or other services at this time.

There are a lot of data centers themselves being built. I kind of wonder if it is okay, but I feel that the communication is fine.

Kabumoto: Compared to the same period last year, there has been a slight decline, but the decline is due to the disappearance of onetime gains. But recurring revenue has been steadily increasing, and we believe that we are continuing to expand steadily into the next fiscal year.

We will continue to focus on controlling costs to increase sales and further expand profits. We hope to receive your continued support.