

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, 2022 [IFRS]

February 14, 2023

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:	February 14, 2023	
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, 2022 (April 1, 2022 – December 31, 2022, “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, 2022	43,457	7.9	6,824	(9.7)	6,571	(10.7)	4,635	(9.2)	4,332	(10.3)	4,635	(20.9)
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

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine-month period ended December 31, 2022	86.81	-
Nine-month period ended December 31, 2021	96.72	-

(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, 2022	101,548	29,115	27,310	% 26.9
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 nine-month period ended December 31, 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 December 31, 2022	50,000,000 Shares	As of March 31, 2022	50,000,000 Shares
(ii) Number of treasury stock	As of December 31, 2022	59,542 Shares	As of March 31, 2022	112,766 Shares
(iii) Number of weighted average common stock outstanding	As of December 31, 2022	49,913,552 Shares	As of December 31, 2021	49,920,405 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 the country entered the “new normal” phase in the third quarter the economy is slowly starting to recover.

On the other hand, the drawn-out war in Ukraine and rise in prices may lead to possible headwinds to the economy, such as procurement limitations and financial tightening, which 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 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. 1.5bn 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.

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

In FTTx services, cloud usage and the spread of telecommuting remain growth drivers and the expansion of our maximum 10Gbps (uplink and downlink) FTTx service in areas where there is high demand from customers, such as Kanagawa and Tatebayashi in Gunma, is ongoing.

In ISP services, demand for high-quality services has increased, and take-up of our Cross Pass (note 1) 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 continue to expand the service lineup for our VANILA service, which uses NFV (note 2) technology, and orders are increasing.

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

To cater 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. Orders for Connectix, a service enabling priority telecommunications to residents, in combination with our Five.A internet service package in small to medium sized condos in the rental market are increasing.

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 third quarter net sales increased by 3,173 million yen (7.9%) year on year to 43,457 million yen. Operating income decreased by 735 million yen (9.7%) year on year to 6,824 million yen, profit before income taxes for the period decreased by 783 million yen (10.7%) year on year to 6,571 million yen. Profit for the period attributable to owners of the parent decreased by 495 million yen (10.3%) year on year to 4,332 million yen.

Notes:

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	December 31, 2022	Change
Total assets (millions of yen)	99,081	101,548	2,466
Total equity (millions of yen)	27,930	29,115	1,185
Equity attributable to owners of the parent (millions of yen)	26,017	27,310	1,293
Ratio of equity attributable to owners of the parent (%)	26.3	26.9	0.6
Balance of borrowings (millions of yen)	36,163	38,952	2,788

During the third quarter, total assets increased by 2,466 million yen from the end of the previous fiscal year, to 101,548 million yen. Equity attributable to owners of the parent increased by 1,293 million yen year on year, to 27,310 million yen. As a result, the ratio of equity attributable to owners of the parent amounted to 26.9%.

The balance of borrowings increased by 2,788 million yen year on year, to 38,952 million yen, as a result of new borrowings.

Overview of Cash Flows

During the third quarter, the balance of cash and cash equivalents decreased by 3,266 million yen year on year, to 3,661 million yen.

(Cash flows from operating activities)

A decrease in income taxes paid resulted in an increase of 1,016 million yen year on year in cash generated by operating activities, to 8,704 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 6,294 million yen year on year, to 10,142 million yen.

Consequently, free cash flow (*) in the third quarter decreased by 5,277 million yen year on year to 1,438 million yen cash used.

(Cash flows from financing activities)

Cash used for financing activities decreased by 5,123 million yen year on year, to 2,743 million yen, due to a decrease in dividends paid, as a result of the introduction of interim dividend 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)	Third quarter of the current fiscal year (December 31, 2022)
	Millions of yen	Millions of yen
Assets		
Current assets		
Cash and cash equivalents	7,781	3,661
Trade and other receivables	8,258	9,243
Other financial assets	5	58
Inventories	275	469
Other current assets	2,395	2,393
Total current assets	18,715	15,826
Non-current assets		
Property, plant and equipment	41,775	45,833
Goodwill	12,646	12,646
Intangible assets	15,052	14,753
Investments accounted for using equity method	-	1,792
Other financial assets	8,017	7,757
Deferred tax assets	1,923	1,503
Other non-current assets	950	1,433
Total non-current assets	80,365	85,721
Total assets	99,081	101,548

	Previous fiscal year (March 31, 2022)	Third quarter of the current fiscal year (December 31, 2022)
	Millions of yen	Millions of yen
Liabilities and Equity		
Liabilities		
Current liabilities		
Borrowings	36,163	38,952
Trade and other payables	7,655	8,430
Lease liabilities	2,630	2,131
Income and other taxes payable	2,519	794
Provisions	182	182
Other current liabilities	4,611	4,761
Total current liabilities	53,762	55,252
Non-current liabilities		
Long-term lease liabilities	8,508	8,450
Retirement benefit liabilities	906	994
Provisions	3,704	3,772
Deferred tax liabilities	2,320	2,184
Other non-current liabilities	1,948	1,777
Total non-current liabilities	17,388	17,180
Total liabilities	71,151	72,432
Equity		
Common stock	5,150	5,150
Capital surplus	4,703	4,744
Retained earnings	16,485	17,738
Treasury stock	(322)	(322)
Other components of equity	(0)	0
Total equity attributable to owners of the parent	26,017	27,310
Non-controlling interests	1,913	1,804
Total equity	27,930	29,115
Total liabilities and equity	99,081	101,548

(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, 2021 (From April 1, 2021 To December 31, 2021)	For the nine-month period ended December 31, 2022 (From April 1, 2022 To December 31, 2022)
	Millions of yen	Millions of yen
Net sales	40,283	43,457
Cost of sales	27,439	29,590
Gross profit	12,844	13,866
Selling, general and administrative expenses	6,718	7,471
Other income	1,590	549
Other expenses	157	120
Operating profit	7,559	6,824
Finance income	155	96
Finance costs	360	364
Share of profit of investments accounted for using equity method	-	15
Profit for the period before income taxes	7,354	6,571
Income taxes	2,249	1,936
Profit for the period	5,105	4,635
Profit for the period attributable to:		
Owners of the parent	4,828	4,332
Non-controlling interests	277	302
Profit for the period	5,105	4,635
Earnings per share		
Basic earnings per share (yen)	96.72	86.81
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, 2021 (From April 1, 2021 To December 31, 2021)	For the nine-month period ended December 31, 2022 (From April 1, 2022 To December 31, 2022)
	Millions of yen	Millions of yen
Profit for the period	5,105	4,635
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>5,864</u>	<u>4,635</u>
Comprehensive income for the period attributable to:		
Owners of parent	5,586	4,333
Non-controlling interests	277	302
Comprehensive income for the period	<u>5,864</u>	<u>4,635</u>

(3) Quarterly Condensed Consolidated Statement of Changes in Equity
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		
	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	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

For the nine-month period ended December 31, 2022 (From April 1, 2022 To December 31, 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	-	-	4,332	-	-	-
Other comprehensive income	-	-	-	-	0	0
Comprehensive income for the period	-	-	4,332	-	0	0
Cash dividends	-	-	(3,080)	-	-	-
Share-based payment transactions	-	40	-	-	-	-
Total transactions with owners	-	40	(3,080)	-	-	-
As of December 31, 2022	5,150	4,744	17,738	(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	4,332	302	4,635
Other comprehensive income	0	-	0
Comprehensive income for the period	4,333	302	4,635
Cash dividends	(3,080)	(411)	(3,491)
Share-based payment transactions	40	-	40
Total transactions with owners	(3,039)	(411)	(3,450)
As of December 31, 2022	27,310	1,804	29,115

(4) Quarterly Condensed Consolidated Statement of Cash Flows

	For the nine-month period ended December 31, 2021 (From April 1, 2021 To December 31, 2021)	For the nine-month period ended December 31, 2022 (From April 1, 2022 To December 31, 2022)
	Millions of yen	Millions of yen
Cash flows from operating activities		
Profit for the period before income taxes	7,354	6,571
Depreciation and amortization	6,469	7,076
Finance income	(155)	(96)
Finance costs	360	364
Share of (profit) loss of investments accounted for using equity method	-	(15)
Loss on disposal of property, plant and equipment	119	93
(Increase) decrease in trade and other receivables	238	(586)
(Increase) decrease in inventories	(24)	(261)
(Decrease) increase in trade and other payables	(535)	(317)
(Gain) loss on sale of property, plant and equipment, and intangible assets	(1,498)	(380)
Other	(709)	(247)
Subtotal	11,619	12,201
Interest received	40	52
Dividend income received	68	-
Interest paid	(266)	(289)
Income taxes paid	(3,774)	(3,260)
Net cash provided by (used in) operating activities	7,687	8,704
Cash flows from investing activities		
Purchases of property, plant and equipment	(6,200)	(7,564)
Proceeds from sale of property, plant and equipment	1,919	274
Disposals of property, plant and equipment	(277)	(197)
Purchases of intangible assets	(675)	(767)
Proceeds from sale of intangible assets	-	50
Purchases of investments accounted for using equity method	-	(1,776)
Proceeds from sale of investment securities	1,500	-
Other	(113)	(161)
Net cash (used in) provided by investing activities	(3,848)	(10,142)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	-	4,000
Repayments of long-term borrowings	(1,120)	(1,272)
Repayments of lease liabilities	(1,855)	(2,045)
Dividends paid	(4,211)	(3,077)
Dividends paid to non-controlling interests	(423)	(411)
Purchase of treasury stock	(242)	-
Other	(13)	63
Net cash (used in) provided by financing activities	(7,866)	(2,743)
Net effect of currency translation on cash and cash equivalents	(1)	61
Net (decrease) increase in cash and cash equivalents	(4,028)	(4,119)
Cash and cash equivalents at the beginning of the period	10,957	7,781
Cash and cash equivalents at the end of the period	6,928	3,661

(5) Notes to Quarterly Condensed Consolidated Financial Statements

(Going Concern Assumption)

Not applicable.

(Accounting Estimates and Judgements involving Estimates)

In preparing the quarterly condensed 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.