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 2 of this report.

ARTERIA Networks Corporation Consolidated Financial Report
For the Three-month Period Ended June 30, 2019 [IFRS]

August 14, 2019

Company name	ARTERIA Networks Corporation		Stock listing: Tokyo Stock Exchange – First Section	
Stock ticker	4423	URL https://www.arteria-net.com/		
Representative	(Position)	Representative Director, President & CEO	(Name) Koji Kabumoto	
Name of contact	(Position)	Managing Executive Officer & CFO	(Name) Seiichi Tateishi	TEL 03 (6823) 0349

Schedule date of quarterly report filing: August 14, 2019
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, 2019 (April 1, 2019 – June 30, 2019, “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, 2019	12,631	7.4	1,985	20.3	1,891	22.4	1,316	17.2	1,231	19.1	1,411	16.8
Three-month period ended June 30, 2018	11,757	-	1,650	-	1,546	-	1,123	-	1,033	-	1,208	-

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three-month period ended June 30, 2019	24.62	-
Three-month period ended June 30, 2018	20.67	-

(Note)

The Company conducted a stock split of 5 shares for each share of common stock with an effective date of September 28, 2018. Basic earnings per share is calculated based on the assumption that the stock split had been conducted at the beginning of the fiscal year ended March 31, 2019.

(Reference) (Percentages are shown as year-on-year changes)

	Adjusted EBITDA	
		%
Three-month period ended June 30, 2019	3,987	12.3
Three-month period ended June 30, 2018	3,549	-

(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, 2019	84,598	18,837	16,663	19.7
As of March 31, 2019	81,968	18,736	16,647	20.3

2. Dividends

	Dividends per share				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2019	-	-	-	26.22	26.22
Fiscal year ended March 31, 2020	-				
Fiscal year ending March 31, 2020 (forecasted)		-	-	51.20	51.20

(Note)

Revision of forecasted dividend : None

Dividends were paid from capital surplus. For more details, please refer to "Breakdown of the dividends paid from capital surplus".

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2020 (April 1, 2019 to March 31, 2020)

(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, 2020	50,778	3.2	8,372	12.1	7,912	13.2	5,485	8.8	5,119	10.3	102.40

(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, 2019: None

(2) Changes in accounting policies and estimates

(i) Changes in accounting policies required under IFRS: Yes

(ii) Other changes in accounting policies: None

(iii) Changes in accounting estimates: None

(Note)

For details refer to “Changes in accounting policies” on P.15

(3) Number of outstanding shares (Common stock)

(i) Number of shares outstanding (including treasury stock)	As of June 30, 2019	50,000,000 Shares	As of March 31, 2019	50,000,000 Shares
(ii) Number of treasury stock	As of June 30, 2019	61 Shares	As of March 31, 2019	61 Shares
(iii) Number of weighted average common stock outstanding	As of June 30, 2019	49,999,939 Shares	As of June 30, 2018	50,000,000 Shares

(Note)

The Company conducted a stock split of 5 shares for each share of common stock with an effective date of September 28, 2018. The number of shares outstanding (including treasury stock) and number of weighted average common stock outstanding are calculated based on the assumption that the stock split had been conducted at the beginning of the previous fiscal year.

* 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."

Regarding (Reference) information

(1) Adjusted EBITDA = profit + income taxes – finance income + finance costs + depreciation and amortization + loss on disposal of supplies and equipment installed at customers' premises + IPO preparation expenses

(2) IPO preparation expenses consist of expenses incurred in preparing for our IPO that are not expected to recur. Such expenses include fees paid to accounting and other advisors in connection with preparation for our IPO and are included as part of IPO related costs.

(3) Loss on disposal of supplies and equipment installed at customers' premises consist of such losses recorded as part of cost of sales and other expense in our consolidated statement of income.

(4) Adjusted EBITDA is not prepared in accordance with article 193-2 (1) of the Financial Instruments and Exchange Act of Japan and has not been audited or reviewed by the Company's independent auditors.

(5) Adjusted EBITDA reflects some expenses incurred in preparing for our IPO that are not expected to recur after the completion of our IPO and do not reflect the underlying performance of our business. These non-IFRS measures are supplemental financial measures that we believe are useful for investors to assess the operating performance and profitability of our business.

(6) Adjusted EBITDA excludes certain items which impact profit. These non-IFRS measures should not be considered in isolation or as a substitute for the most comparable financial measures presented in accordance with IFRS. These indices are meant to be illustrative only and are calculated based on assumptions which might differ from those used by other companies and should therefore not be used as a basis for comparison.

Breakdown of the dividends paid from capital surplus

The breakdown of the dividends as of March 31, 2019 which were paid from capital surplus is as follows:

Resolution	As of March 31, 2019	Total
Dividends per share (yen)	26.22	26.22
Total dividends (Millions of yen)	1,310	1,310

(Note)

Net asset diminution rate: 0.354

Appendix

1. Qualitative Information / Consolidated Financial Statements, etc.

(1) Operational Results

At the backdrop of the U.S. - China trade talks and prolonged negotiations relating to the UK's exit from the EU, uncertainty regarding the future became stronger during the first quarter. The improvement in the employment and income environment continues to contribute to the gradual recovery of the Japanese economy and, while capital expenditures in some industries are weak, the overall trend is increasing.

In the information and telecommunications market, where the Group operates, dramatic changes in the level of convenience in people's lives and in the productivity of every industry are occurring with the spread of artificial intelligence (AI), the internet of things (IoT), online video consumption, cloud-based services, 5G, and so forth. The market is expected to expand going forward as data traffic increases. Furthermore, the information and telecommunications business is to play a more important role in society, including strengthening security against increasingly advanced and sophisticated cyberattacks and operating social systems that enable people to live securely.

In this business environment, we will continue to lever our strengths in internet services, network services and condominium internet services and focus our management resources in areas where we expect high growth to expand the provision of services.

In internet services, sales of the maximum uplink and downlink best effort base service ARTERIA Hikari Internet Access, launched in January 2019, continues to expand and is well received especially by enterprises using cloud services, providing content and offering information technology services.
In June 2019 we received the highest award issued by MM Research Institute for 2019 in the "Smart Solutions" category for "Next Generation Wired Networks" hereby gaining recognition of the stability and high quality of our ARTERIA Hikari Internet Access service.

In network services, opportunities to propose one-stop solutions from the network side such as a stable internet environment through a LAN connection to the backbone, security services with UTM functionalities and connection to cloud services are increasing as are the number of customers using these services. This enables us to offer optimal total package services starting with the construction of a network environment to the use of cloud services, hereby meeting the customers' needs.

In condominium internet services, sales of 1Gbps and 10Gbps building-wide internet services to condominiums continued to expand. Orders to lay optical fiber in large newly developed condominium buildings increased and the rollout of this service in a university dormitory is also ongoing. Orders in the rental market space also increased.

As a result, during the first quarter net sales increased by 874 million yen (7.4%) year on year to12,631 million yen. While there was no re-occurrence of IPO-related costs recognized last fiscal year, one-time costs related to compliance etc. increased. However, mainly as a result of higher sales and gross profit, operating profit increased by 334 million yen (20.3%) year on year to1,985 million yen, profit for the period before income taxes increased by 345 million yen (22.4%) year on year to 1,891 million yen. Profit for the period attributable to owners of the parent increased by 197 million yen (19.1%) year on year to 1,231 million yen.

(2) Financial Position

	March 31, 2019	June 30, 2019	Change
Total assets (millions of yen)	81,968	84,598	2,629
Total equity (millions of yen)	18,736	18,837	100
Equity attributable to owners of the parent (millions of yen)	16,647	16,663	15
Ratio of equity attributable to owners of the parent (%)	20.3	19.7	(0.6)
Balance of borrowings (millions of yen)	41,694	41,720	26

During the first quarter, total assets increased by 2,629 million yen from the end of the previous fiscal year, to 84,598 million yen. Equity attributable to owners of the parent increased by 15 million yen year on year, to 16,663 million yen due to an increase in retained earnings, while there was a decrease in capital surplus due to payment of dividend. As a result, the ratio of equity attributable to owners of the parent amounted to 19.7%.

Overview of Cash Flows
During the first quarter, the balance of cash and cash equivalents increased by 1,935 million yen year on year, to 8,667 million yen.

(Cash flows from operating activities)
A decrease in income taxes paid and other payables resulted in an increase of 1,492 million yen year on year in cash generated by operating activities, to 2,705 million yen.

(Cash flows from investing activities)
As a result of acquiring and selling fixed assets, cash used for investing activities increased by 120 million yen year on year, to 1,611 million yen.

Consequently, free cash flow (*) in the first quarter year increased by 1,371 million yen year on year to 1,093 million yen cash generated.

(Cash flows from financing activities)
Cash used for financing activities increased by 1,446 million yen year on year, to 1,714 million yen, due to dividends payment and an increase in repayments of lease liabilities upon the adoption of IFRS 16.

* Free cash flow: cash flows from operating activities + cash flows from investing activities.

(3) Forecasts
For the consolidated earnings results forecast refer to the forecast which the Company disclosed on May 14, 2019, “Corporation Consolidated Financial Report For the Fiscal Year Ended March 31, 2019”.

2. Quarterly Condensed Consolidated Financial Statements

(1) Quarterly Condensed Consolidated Statement of Financial Position

	Previous fiscal year (March 31, 2019)	First quarter of the current fiscal year (June 30, 2019)
	Millions of yen	Millions of yen
Assets		
Current assets		
Cash and cash equivalents	9,288	8,667
Trade and other receivables	6,608	6,159
Other financial assets	30	21
Inventories	372	197
Income and other taxes receivables	186	-
Other current assets	1,348	1,750
Total current assets	17,834	16,796
Non-current assets		
Property, plant and equipment	30,621	34,440
Goodwill	12,646	12,646
Intangible assets	16,214	16,023
Other financial assets	2,872	2,976
Deferred tax assets	1,201	1,144
Other non-current assets	578	570
Total non-current assets	64,134	67,802
Total assets	81,968	84,598

	Previous fiscal year (March 31, 2019)	First quarter of the current fiscal year (June 30, 2019)
	Millions of yen	Millions of yen
Liabilities and Equity		
Liabilities		
Current liabilities		
Borrowings	1,634	1,634
Trade and other payables	5,240	4,324
Other financial liabilities	748	1,582
Income and other taxes payable	817	361
Provisions	182	182
Other current liabilities	4,241	4,191
Total current liabilities	12,864	12,276
Non-current liabilities		
Borrowings	40,060	40,086
Other financial liabilities	2,827	6,041
Retirement benefit liabilities	598	635
Provisions	2,797	2,814
Deferred tax liabilities	2,880	2,841
Other non-current liabilities	1,203	1,065
Total non-current liabilities	50,367	53,484
Total liabilities	63,231	65,760
Equity		
Common stock	5,150	5,150
Capital surplus	5,951	4,640
Retained earnings	5,575	6,807
Treasury stock	(0)	(0)
Other components of equity	(28)	66
Total equity attributable to owners of the parent	16,647	16,663
Non-controlling interests	2,089	2,174
Total equity	18,736	18,837
Total liabilities and equity	81,968	84,598

(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, 2018 (From April 1, 2018 To June 30, 2018)	For the three-month period ended June 30, 2019 (From April 1, 2019 To June 30, 2019)
	Millions of yen	Millions of yen
Net sales	11,757	12,631
Cost of sales	7,952	8,417
Gross profit	3,804	4,214
Selling, general and administrative expenses	1,861	2,214
Other income	5	82
Other expenses	297	95
Operating profit	1,650	1,985
Finance income	8	41
Finance costs	113	135
Profit for the period before income taxes	1,546	1,891
Income taxes	422	575
Profit for the period	1,123	1,316
Profit for the period attributable to:		
Owners of the parent	1,033	1,231
Non-controlling interests	89	84
Profit for the period	1,123	1,316
Earnings per share		
Basic earnings per share (yen)	20.67	24.62
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, 2018 (From April 1, 2018 To June 30, 2018)	For the three-month period ended June 30, 2019 (From April 1, 2019 To June 30, 2019)
	Millions of yen	Millions of yen
Profit for the period	1,123	1,316
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	85	95
Total items that will not be reclassified to profit or loss	85	95
Total other comprehensive income, net of tax	85	95
Comprehensive income for the period	1,208	1,411
Comprehensive income for the period attributable to:		
Owners of parent	1,118	1,326
Non-controlling interests	89	84
Comprehensive income for the period	1,208	1,411

(3) Quarterly Condensed Consolidated Statement of Changes in Equity

For the three-month period ended June 30, 2018 (From April 1, 2018 To June 30, 2018)

	Equity attributable to owners of the parent					
					Other components of equity	
	Common stock	Capital surplus	Retained earnings	Treasury stock	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 Apr 1, 2018	5,150	5,883	953	-	(114)	(114)
Profit for the period	-	-	1,033	-	-	-
Other comprehensive income	-	-	-	-	85	85
Comprehensive income for the period	-	-	1,033	-	85	85
Cash dividends	-	-	-	-	-	-
Total transactions with owners	-	-	-	-	-	-
As of June 30, 2018	5,150	5,883	1,986	-	(28)	(28)

	Equity attributable to owners of the parent	Non-controlling interests	Total
	Total		
	Millions of yen	Millions of yen	Millions of yen
As of Apr 1, 2018	11,872	2,099	13,972
Profit for the period	1,033	89	1,123
Other comprehensive income	85	-	85
Comprehensive income for the period	1,118	89	1,208
Cash dividends	-	(409)	(409)
Total transactions with owners	-	(409)	(409)
As of June 30, 2018	12,991	1,779	14,770

For the three-month period ended June 30, 2019 (From April 1, 2019 To June 30, 2019)

	Equity attributable to owners of the parent					
					Other components of equity	
	Common stock	Capital surplus	Retained earnings	Treasury stock	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 Apr 1, 2019	5,150	5,951	5,575	(0)	(28)	(28)
Profit for the period	-	-	1,231	-	-	-
Other comprehensive income	-	-	-	-	95	95
Comprehensive income for the period	-	-	1,231	-	95	95
Cash dividends	-	(1,310)	-	-	-	-
Total transactions with owners	-	(1,310)	-	-	-	-
As of June 30, 2019	5,150	4,640	6,807	(0)	66	66

	Equity attributable to owners of the parent	Non-controlling interests	Total
	Total		
	Millions of yen	Millions of yen	Millions of yen
As of Apr 1, 2019	16,647	2,089	18,736
Profit for the period	1,231	84	1,316
Other comprehensive income	95	-	95
Comprehensive income for the period	1,326	84	1,411
Cash dividends	(1,310)	-	(1,310)
Total transactions with owners	(1,310)	-	(1,310)
As of June 30, 2019	16,663	2,174	18,837

(4) Quarterly Condensed Consolidated Statement of Cash Flows

	For the three-month period ended June 30, 2018 (From April 1, 2018 To June 30, 2018)	For the three-month period ended June 30, 2019 (From April 1, 2019 To June 30, 2019)
	Millions of yen	Millions of yen
Cash flows from operating activities		
Profit for the period before income taxes	1,546	1,891
Depreciation and amortization	1,631	1,941
Finance income	(8)	(41)
Finance costs	113	135
Loss on disposal of property, plant and equipment	41	39
Decrease (increase) in trade and other receivables	151	454
(Increase) decrease in inventories	(89)	161
(Decrease) increase in trade and other payables	(241)	(250)
Other	(421)	(795)
Subtotal	2,723	3,537
Interest received	0	0
Dividend income received	-	33
Interest paid	(86)	(99)
Income taxes paid	(1,424)	(766)
Net cash provided by (used in) operating activities	1,212	2,705
Cash flows from investing activities		
Purchases of property, plant and equipment	(1,601)	(1,487)
Proceeds from sale of property, plant and equipment	126	39
Disposals of property, plant and equipment	(67)	(53)
Purchases of intangible assets	(96)	(104)
Other	148	(6)
Net cash (used in) provided by investing activities	(1,490)	(1,611)
Cash flows from financing activities		
Repayments of lease liabilities	(262)	(424)
Dividends paid to non-controlling interests	-	(1,286)
Other	(5)	(4)
Net cash (used in) provided by financing activities	(267)	(1,714)
Net (decrease) increase in cash and cash equivalents	(545)	(621)
Cash and cash equivalents at the beginning of the period	7,278	9,288
Cash and cash equivalents at the end of the period	6,732	8,667

(5) Notes to Consolidated Financial Statements

(Going Concern Assumption)

Not applicable.

(Changes in accounting policies)

The Group has applied IFRS 16 *Leases* ("IFRS 16") from the beginning of the fiscal year ending March 31, 2020. Due to the adoption of IFRS 16, operating leases are accounted for based on the right-of-use model. Under this model, a lessee gains right-of-use of the underlying asset over the lease period while recognizing the liabilities for lease payments to the lessor at the inception of the lease. Hence, when applied to the Group's operating leases, an increase in assets and liabilities is likely to arise. In addition, under IAS 17 *Leases* ("IAS 17"), lease payments on operating leases were recognized as rent fees, but under IFRS 16, depreciation of right-of-use assets and interest expenses of the lease liabilities are recognized as profit and loss.

At the initial application date, the lease liabilities from lease contracts are measured at the present value of the lease payments that are not paid at that date. Subsequently, the carrying amount of the lease liabilities is adjusted to reflect the rate of interest on the lease liabilities and lease payments made. Right-of-use assets are measured at the initial measured value of the lease liabilities and adjusted for lease prepayments, etc. The right-of-use assets are depreciated on a straight-line basis over the lease periods.

(a) Impact of the application of the Standards on the Group

The difference between the total amount of minimum lease payments based on the non-cancellable operating lease agreements, as disclosed on March 31, 2019 according to IAS 17, and the lease liabilities recognized at the initial application date according to IFRS 16 was 4,347 million yen. This mainly reflects the impact of the review and change of lease periods on adopting IFRS 16. Accordingly right-of-use assets included in property, plant and equipment increased by 4,381 million yen and lease liabilities included in other financial liabilities increased by 4,360 million yen from this fiscal year. There was no material impact on the quarterly condensed consolidated statement of income.

With the adoption of IFRS 16, the cash flows relating to operating leases, previously included within cash flows from operating activities, are now included in cash flows from financing activities. Payments for leases ending within 12 months or less and leases of low-value assets are exempt from this change. As a result, in the first quarter net cash provided by operating activities increased by 227 million yen and net cash used in financing activities increased by 225 million yen.

(b) Method of transition

Upon application of the standards, the Group has adopted the transitional provisions to recognize the cumulative effect of applying the standards as an adjustment to the beginning balance of retained earnings retrospectively at the date of initial application. As a result of adopting this method, the impact for the cumulative effect at the date of initial application was immaterial. The practical expedients permitted by the standards for the exemption for leases ending within 12 months or less and the exemption of initial direct costs at the date of initial application have been applied.

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognized in the quarterly condensed consolidated statement of financial position at the date of initial application was 0.3%.

(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.

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.