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 Nine-month Period Ended December 31, 2019 [IFRS]

February 14, 2020

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: February 14, 2020
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, 2019 (April 1, 2019 – December 31, 2019, "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, 2019	38,185	5.9	6,667	17.4	6,326	18.5	4,383	13.0	4,105	14.7	4,459	12.4
Nine-month period ended December 31, 2018	36,065	3.5	5,681	(3.6)	5,339	(4.4)	3,881	0.1	3,579	(2.2)	3,966	1.9

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine-month period ended December 31, 2019	82.10	-
Nine-month period ended December 31, 2018	71.59	-

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	
		%
Nine-month period ended December 31, 2019	12,867	13.0
Nine-month period ended December 31, 2018	11,390	1.9

(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, 2019	88,385	21,421	19,516	22.1
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 ending March 31, 2020	-	-	-		
Fiscal year ending March 31, 2020 (forecasted)				51.20	51.20

Note

Revision of forecasted dividend : None

Dividends for the fiscal year ended March 31, 2019 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 nine-month period ended December 31, 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.16

(3) Number of outstanding shares (Common stock)

(i) Number of shares outstanding (including treasury stock)	As of December 31, 2019	50,000,000 Shares	As of March 31, 2019	50,000,000 Shares
(ii) Number of treasury stock	As of December 31, 2019	61 Shares	As of March 31, 2019	61 Shares
(iii) Number of weighted average common stock outstanding	As of December 31, 2019	49,999,939 Shares	As of December 31, 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 fiscal year ended March 31, 2019.

* 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 impacts 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 heightened tension over trade issues in the world economy, uncertainty regarding the future became stronger during the third quarter. The prospects of the Chinese economy and the effects of fluctuations in the financial and capital markets need to be observed going forward. While some weakness is seen in machinery investments in Japan, capital expenditure is marginally increasing, the employment and income environment continue to improve and the Japanese economy is gradually on its way to recovery.

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 continued to expand sales and orders by levering 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, our low congestion, high-quality services ARTERIA Hikari Internet Access and UCOM Hikari Internet Access are well-received by customers resulting in strong order trends. ARTERIA Hikari Internet Access is the fastest service in Japan*[1] at maximum 10Gbps (uplink and downlink) on a best effort basis. In ISP services, sales to OEM Flet's partners continue to expand, we plan to sustain this growth trend by entering the VNE*[2] market in the next fiscal year.

In network services, at the backdrop of the increase in traffic volume and the roll out of 5G, OTTs*[3] are proactively investing in the enforcement of proprietary backbone networks. We have successfully been catering to these needs and orders for leased circuits are growing steadily. In VPN services, orders for our router pack service, which provides total support from the fiber lines to the router, are sustaining a strong trend. Revenue growth was achieved as a result of higher average revenue per user. In order to provide further added value we plan to start offering virtualization platforms such as NFV*[4] and SD-WAN*[5] services aimed at revenue growth and improved profitability.

In condominium internet services, by providing high speed and quality internet services such as 10Gbps and All Hikari for owned condominiums and rental apartments we continue to receive orders from medium to large condo complexes in the owned condo and rental apartments market. Revenue and orders for rental apartments are expanding as a result of pursuing comprehensive contracts with management companies.

In November 2019 we launched a chatbot based support service to our e-mansion customers on a trial basis. Once we have verified this enhances the quality of our customer support and customer satisfaction, we aim to offer this service to all our condo ISP customers.

As a result, during the third quarter net sales increased by 2,119 million yen (5.9%) year on year to 38,185 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 margin on sales, operating income increased by 986 million yen (17.4%) year on year to 6,667 million yen, profit before income taxes for the period increased by 986 million yen (18.5%) year on year to 6,326 million yen. Profit for the period attributable to owners of the parent increased by 525 million yen (14.7%) year on year to 4,105 million yen.

Notes:

1 In the FTTH best effort base service for enterprises market (as of end of December 2018, Company research).

2 Virtual Network Enabler: service provider that offers network facilities and systems required for IPoE connection to internet service providers.

3 Over The Top

4 Network Functions Virtualization: network architecture concept that uses the technologies of IT virtualization to virtualize entire classes of network node functions into building blocks that may connect, or chain together, to create communication services.

5 Software Defined Wide Area Network: a specific application of software-defined networking (SDN) technology expanding from LAN (Local Area Network) to WAN connections. SDN offers bandwidth on demand, security, and authentication functions through software.

(2) Financial Position

	March 31, 2019	December 31, 2019	Change
Total assets (millions of yen)	81,968	88,385	6,416
Total equity (millions of yen)	18,736	21,421	2,684
Equity attributable to owners of the parent (millions of yen)	16,647	19,516	2,869
Ratio of equity attributable to owners of the parent (%)	20.3	22.1	1.8
Balance of borrowings (millions of yen)	41,694	40,954	(740)

During the third quarter, total assets increased by 6,416 million yen from the end of the previous fiscal year, to 88,385 million yen upon the adoption of IFRS16. Equity attributable to owners of the parent increased by 2,869 million yen year on year, to 19,516 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 22.1%.

Overview of Cash Flows
During the third quarter, the balance of cash and cash equivalents increased by 3,207 million yen year on year, to 10,605 million yen.

(Cash flows from operating activities)
A decrease in income taxes paid and the fact that rent fee payments are recognized as repayment of lease liabilities in cash flows from financing activities under IFRS 16 resulted in an increase of 2,459 million yen year on year in cash generated by operating activities, to 9,870 million yen.

(Cash flows from investing activities)
As a result of acquiring and selling fixed assets, cash used for investing activities decreased by 339 million yen year on year, to 4,501 million yen.

Consequently, free cash flow (*) in the third quarter increased by 2,798 million yen year on year to 5,368 million yen cash generated.

(Cash flows from financing activities)
Cash used for financing activities increased by 1,601 million yen year on year, to 4,051 million yen, due to payment of dividends and an increase in repayments of lease liabilities upon the adoption of IFRS 16, while there was a decrease in repayments of borrowings.

* 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)	Third quarter of the current fiscal year (December 31, 2019)
	Millions of yen	Millions of yen
Assets		
Current assets		
Cash and cash equivalents	9,288	10,605
Trade and other receivables	6,608	6,333
Other financial assets	30	13
Inventories	372	164
Income and other taxes receivables	186	5
Other current assets	1,348	1,339
Total current assets	17,834	18,461
Non-current assets		
Property, plant and equipment	30,621	37,122
Goodwill	12,646	12,646
Intangible assets	16,214	15,504
Other financial assets	2,872	3,007
Deferred tax assets	1,201	980
Other non-current assets	578	661
Total non-current assets	64,134	69,923
Total assets	81,968	88,385

	Previous fiscal year (March 31, 2019)	Third quarter of the current fiscal year (December 31, 2019)
	Millions of yen	Millions of yen
Liabilities and Equity		
Liabilities		
Current liabilities		
Borrowings	1,634	1,786
Trade and other payables	5,240	3,588
Other financial liabilities	748	2,630
Income and other taxes payable	817	765
Provisions	182	182
Other current liabilities	4,241	4,013
Total current liabilities	12,864	12,965
Non-current liabilities		
Borrowings	40,060	39,167
Other financial liabilities	2,827	7,599
Retirement benefit liabilities	598	707
Provisions	2,797	2,855
Deferred tax liabilities	2,880	2,766
Other non-current liabilities	1,203	901
Total non-current liabilities	50,367	53,998
Total liabilities	63,231	66,964
Equity		
Common stock	5,150	5,150
Capital surplus	5,951	4,640
Retained earnings	5,575	9,680
Treasury stock	(0)	(0)
Other components of equity	(28)	46
Total equity attributable to owners of the parent	16,647	19,516
Non-controlling interests	2,089	1,904
Total equity	18,736	21,421
Total liabilities and equity	81,968	88,385

(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, 2018 (From April 1, 2018 To December 31, 2018)	For the nine-month period ended December 31, 2019 (From April 1, 2019 To December 31, 2019)
	Millions of yen	Millions of yen
Net sales	36,065	38,185
Cost of sales	24,190	25,287
Gross profit	11,875	12,897
Selling, general and administrative expenses	5,469	6,185
Other income	54	152
Other expenses	779	196
Operating profit	5,681	6,667
Finance income	25	55
Finance costs	366	396
Profit for the period before income taxes	5,339	6,326
Income taxes	1,458	1,942
Profit for the period	3,881	4,383
Profit for the period attributable to:		
Owners of the parent	3,579	4,105
Non-controlling interests	301	278
Profit for the period	3,881	4,383
Earnings per share		
Basic earnings per share (yen)	71.59	82.10
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, 2018 (From April 1, 2018 To December 31, 2018)	For the nine-month period ended December 31, 2019 (From April 1, 2019 To December 31, 2019)
	Millions of yen	Millions of yen
Profit for the period	3,881	4,383
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	85	75
Total items that will not be reclassified to profit or loss	85	75
Total other comprehensive income, net of tax	85	75
Comprehensive income for the period	3,966	4,459
Comprehensive income for the period attributable to:		
Owners of parent	3,664	4,180
Non-controlling interests	301	278
Comprehensive income for the period	3,966	4,459

(3) Quarterly Condensed Consolidated Statement of Changes in Equity
For the nine-month period ended December 31, 2018 (From April 1, 2018 To December 31, 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	-	-	3,579	-	-	-
Other comprehensive income	-	-	-	-	85	85
Comprehensive income for the period	-	-	3,579	-	85	85
Cash dividends	-	-	-	-	-	-
Total transactions with owners	-	-	-	-	-	-
As of December 31, 2018	5,150	5,883	4,532	-	(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	3,579	301	3,881
Other comprehensive income	85	-	85
Comprehensive income for the period	3,664	301	3,966
Cash dividends	-	(409)	(409)
Total transactions with owners	-	(409)	(409)
As of December 31, 2018	15,537	1,991	17,528

For the nine-month period ended December 31, 2019 (From April 1, 2019 To December 31, 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	-	-	4,105	-	-	-
Other comprehensive income	-	-	-	-	75	75
Comprehensive income for the period	-	-	4,105	-	75	75
Cash dividends	-	(1,310)	-	-	-	-
Total transactions with owners	-	(1,310)	-	-	-	-
As of December 31, 2019	5,150	4,640	9,680	(0)	46	46

	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	4,105	278	4,383
Other comprehensive income	75	-	75
Comprehensive income for the period	4,180	278	4,459
Cash dividends	(1,310)	(463)	(1,774)
Total transactions with owners	(1,310)	(463)	(1,774)
As of December 31, 2019	19,516	1,904	21,421

(4) Quarterly Condensed Consolidated Statement of Cash Flows

	For the nine-month period ended December 31, 2018 (From April 1, 2018 To December 31, 2018)	For the nine-month period ended December 31, 2019 (From April 1, 2019 To December 31, 2019)
	Millions of yen	Millions of yen
Cash flows from operating activities		
Profit for the period before income taxes	5,339	6,326
Depreciation and amortization	4,981	6,025
Finance income	(25)	(55)
Finance costs	366	396
Loss on disposal of property, plant and equipment	76	129
Decrease (increase) in trade and other receivables	112	297
(Increase) decrease in inventories	(66)	64
(Decrease) increase in trade and other payables	(217)	(610)
Other	(317)	(1,147)
Subtotal	10,250	11,427
Interest received	0	0
Dividend income received	-	33
Interest paid	(260)	(283)
Income taxes paid and refunds	(2,578)	(1,307)
Net cash provided by (used in) operating activities	7,410	9,870
Cash flows from investing activities		
Purchases of property, plant and equipment	(4,388)	(4,116)
Proceeds from sale of property, plant and equipment	126	39
Disposals of property, plant and equipment	(153)	(158)
Purchases of intangible assets	(198)	(179)
Other	(227)	(86)
Net cash (used in) provided by investing activities	(4,840)	(4,501)
Cash flows from financing activities		
Repayments of long-term borrowings	(1,320)	(817)
Repayments of lease liabilities	(757)	(1,447)
Dividends paid	-	(1,309)
Dividends paid to non-controlling interests	(409)	(463)
Proceeds from sale and leaseback	234	-
Other	(197)	(13)
Net cash (used in) provided by financing activities	(2,450)	(4,051)
Net increase (decrease) in cash and cash equivalents	119	1,317
Cash and cash equivalents at the beginning of the period	7,278	9,288
Cash and cash equivalents at the end of the period	7,397	10,605

(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 third quarter net cash provided by operating activities increased by 860 million yen and net cash used in financing activities increased by 860 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.