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 Fiscal Year Ended March 31, 2020 [IFRS]

May 15, 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
Scheduled date of AGM:		June 26, 2020	
Scheduled date of filing:		June 29, 2020	
Scheduled date of dividend payment:		June 12, 2020	
Supplemental results materials:		Yes	
Earnings results briefing:		Yes (For institutional investors, security analysts)	

(Millions of yen; amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results For the Fiscal Year Ended March 31, 2020 (April 1, 2019 – March 31, 2020, "the fiscal year")

(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	
		%		%		%		%		%		%
Fiscal Year ended March 31, 2020	51,494	4.6	8,669	16.1	8,209	17.5	5,668	12.4	5,296	14.1	5,744	12.5
Fiscal Year ended March 31, 2019	49,219	3.4	7,466	(1.1)	6,987	(2.2)	5,042	2.6	4,642	0.7	5,107	4.2

	Basic earnings per share	Diluted earnings per share	Ratio of profit to equity, attributable to owners of the parent	Ratio of profit before income taxes to total assets	Ratio of operating income to net sales
	Yen	Yen	%	%	%
Fiscal Year ended March 31, 2020	105.93	-	28.4	9.5	16.8
Fiscal Year ended March 31, 2019	92.85	-	32.6	8.7	15.2

(Reference)

Income on equity method investments

Fiscal year ended March 31, 2020 - million yen

Fiscal year ended March 31, 2019 - million yen

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 previous fiscal year.

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

	Adjusted EBITDA	
		%
Fiscal Year ended March 31, 2020	17,279	15.0
Fiscal Year ended March 31, 2019	15,029	3.1

(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	Equity per share attributable to owners of the parent
				%	Yen
As of March 31, 2020	90,779	22,706	20,709	22.8	414.20
As of March 31, 2019	81,968	18,736	16,647	20.3	332.96

Note

The Company conducted a stock split of 5 shares for each share of common stock with an effective date of September 28, 2018. Equity per share attributable to owners of the parent is calculated based on the assumption that the stock split had been conducted at the beginning of the previous fiscal year.

(3) Consolidated Cash flows

	Operating activities	Investing activities	Financing activities	Cash and cash equivalents at the end of the year
As of March 31, 2020	14,570	(6,311)	(5,550)	11,996
As of March 31, 2019	10,655	(5,400)	(3,244)	9,288

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	-	-	-	52.97	52.97
Fiscal year ending March 31, 2021 (forecasted)	-	-	-	54.01	54.01

	Total amount of dividends	Payout ratio (Consolidated)	Ratio of dividend to equity attributable to owners of the parent (Consolidated)
		%	%
Fiscal year ended March 31, 2019	1,310	28.2	9.2
Fiscal year ended March 31, 2020	2,648	50.0	14.2
Fiscal year ending March 31, 2021 (forecasted)		50.0	

Note

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, 2021 (April 1, 2020 to March 31, 2021)

(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, 2021	52,235	1.4	8,854	2.1	8,374	2.0	5,777	1.9	5,401	2.0	108.02

* Notes

(1) Changes in significant consolidated subsidiaries (which resulted in changes in scope of consolidation) during the fiscal year ended March 31, 2020: 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 March 31, 2020	50,000,000 Shares	As of March 31, 2019	50,000,000 Shares
(ii) Number of treasury stock	As of March 31, 2020	61 Shares	As of March 31, 2019	61 Shares
(iii) Number of weighted average common stock outstanding	As of March 31, 2020	49,999,939 Shares	As of March 31, 2019	49,999,991 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.

(Reference)

Non-Consolidated Operating Results For the Fiscal Year Ended March 31, 2020 (April 1, 2019 to March 31, 2020)

(1) Non-Consolidated Operating Results (Percentages are shown as year-on-year changes)

	Net sales		Operating profit		Ordinary income		Net profit	
		%		%		%		%
Fiscal Year ended March 31, 2020	43,697	4.1	5,292	12.1	6,554	43.5	4,869	42.1
Fiscal Year ended March 31, 2019	41,973	(0.6)	4,721	(8.9)	4,566	(5.2)	3,427	11.5

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Fiscal Year ended March 31, 2020	97.40	-
Fiscal Year ended March 31, 2019	68.54	-

(2) Non-Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
			%	Yen
As of March 31, 2020	74,055	16,364	22.1	327.29
As of March 31, 2019	70,990	12,805	18.0	256.11

(Reference)
Shareholders' equity:
As of March 31, 2020 16,364 million yen
As of March 31, 2019 12,805 million yen

* This consolidated financial report is not subject to review procedures by certified public accountants or an audit firm.

* 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 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

While there were some signs of gradual recovery during the fiscal year in Japan such as improvement in the employment and income environment, uncertainty prevails regarding the future impact of the COVID-19 pandemic on the global economy and sudden reduced consumer spending.

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, due to the increase of telecommuting triggered by the spread of the COVID-19 virus.

In this business environment, we continued to steadily expand sales and orders for our core products in our three business areas: internet services, network services and condominium internet services.

In internet services, our FTTH services ARTERIA Hikari Internet Access and UCOM Hikari Internet Access sustained the steady revenue trends of the previous fiscal year. The demand for broadband internet access is also growing due to the increase in traffic, and orders for our fastest service in Japan*[1] at maximum 10Gbps (uplink and downlink) on a best effort basis are trending strong.

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 from April 2020 on.

In network services, at the backdrop of the increase in traffic volume and the roll out of 5G, OTTs*[3] and mobile operators are proactively investing in the build-out of proprietary backbone networks. We continued to cater to these needs and revenue for leased circuits is trending strong. In February 2020, we were the first in Japan*[4] to successfully complete a 400 Gbps long-distance transmission trial between Tokyo and Osaka without regenerator. The trial was executed on a single wavelength over two different commercial fiber routes. We will offer the 400 Gbps leased circuit services from April 2020 on.

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. Orders and inquiries regarding telecommuting VPN services, which were already showing higher adoption as a result of the government's work-style reform policy (Hatarakikata Kaikaku), have increased further as a result of COVID-19.

In condominium internet services, by catering to different users' needs and providing a broad lineup of products orders from medium to large condo complexes in the owned condo and rental apartments market are steadily expanding.

The product lineup includes a broadband access service up to 10 Gbps using a dedicated fiber line, All Hikari which wires the whole condo with optical fiber and a service using the existing metal lines (indoor wiring for telephone) supporting the next generation high-speed standard G.fast. Revenue and orders for rental apartments are expanding as a result of pursuing comprehensive contracts with management companies.

As a result, during the fiscal year net sales increased by 2,275 million yen (4.6%) year on year to 51,494 million yen; operating income increased by 1,202 million yen (16.1%) year on year to 8,669 million yen; profit before income taxes for the fiscal year increased by 1,221 million yen (17.5%) year on year to 8,209 million yen. Profit for the period attributable to owners of the parent increased by 654 million yen (14.1%) year on year to 5,296 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 Single wavelengths on 2 different commercial routes between Tokyo and Osaka without regenerator (as of end of February 2020, Company research).

(2) Financial Position

	March 31, 2019	March 31, 2020	Change
Total assets (millions of yen)	81,968	90,779	8,810
Total equity (millions of yen)	18,736	22,706	3,969
Equity attributable to owners of the parent (millions of yen)	16,647	20,709	4,062
Ratio of equity attributable to owners of the parent (%)	20.3	22.8	2.5
Balance of borrowings (millions of yen)	41,694	40,162	(1,532)
Debt equity ratio	2.7	2.4	(0.3)
Leverage ratio	2.4	2.2	(0.2)

During the fiscal year, total assets increased by 8,810 million yen from the end of the previous fiscal year, to 90,779 million yen upon the adoption of IFRS 16. Equity attributable to owners of the parent increased by 4,062 million yen year on year, to 20,709 million yen, due to an increase in retained earnings. As a result, the ratio of equity attributable to owners of the parent amounted to 22.8%. The balance of borrowings decreased by 1,532 million yen year on year, to 40,162 million yen, as a result of a scheduled repayment.

(3) Overview of Cash Flows

During the fiscal year, the balance of cash and cash equivalents increased by 2,708 million yen year on year, to 11,996 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 3,915 million yen year on year in cash generated by operating activities, to 14,570 million yen.

(Cash flows from investing activities)

As a result of acquiring fixed assets at the efficient investment timing according to the investment plans, cash used for investing activities increased by 911 million yen year on year, to 6,311 million yen.

Consequently, free cash flow (*) in the fiscal year increased by 3,003 million yen year on year to 8,258 million yen cash generated.

(Cash flows from financing activities)

Cash used for financing activities increased by 2,305 million yen year on year, to 5,550 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.

(4) Basic Policy Regarding Distribution of Profits and Dividends for the Fiscal Year Ended March 31, 2020

Our basic policy for dividend distributions is to provide stable dividends while retaining internal reserves for increasing our corporate value and strengthening our competitiveness. We will allocate internal reserves for proactive investments, etc. to carry out measures for strengthening our management foundation.

The Company's dividends are scheduled to be paid once a year as a year-end dividend, with a medium- to long-term payout ratio target of 50%.

The Company's Articles of Incorporation provide that dividends of surplus (including interim dividends) may be conducted by a resolution of the Board of Directors in accordance with Article 459 paragraph 1 of the Companies Act.

(5) Forecasts

The information and telecommunications market is expected to continue expanding as data traffic increases. The majority of our revenue consists out of monthly recurring revenue, and we expect to sustain stable revenue trends. Our future earnings base also consists out of recurring revenue and by catering to the markets' large traffic-related demand we were on track to achieve our medium term plan growth rates (FY18-20).

However, as a result of the "Stay Home" measures issued by the government due to the outbreak of COVID-19, business operations of consumer-oriented businesses are stagnating. This has led to requests for payment exemptions, customers going out of business, new projects being put on hold, a delay in procurement of infrastructure necessary to start providing additional services and delays in the commencement of billing.

Moreover, due to the sudden expansion of telecommuting and school closures, internet access and online video streaming from home have caused traffic to surge resulting in congestion on our network. We expect to see an increase in costs relating to resources and infrastructure investments necessary to put countermeasures in place.

Accordingly, regarding the earnings forecast for the fiscal year ending March 2021, net sales is forecast at 52,235 million yen (1.4%), operating income at 8,854 million yen (2.1%), profit attributable to owners of the parent at 5,401 million yen (2.0%) and dividends per share at 54.01 (dividend payout ratio 50.0%).The above forecasts are based on information regarding the COVID-19 impact available as of April 2020. The impact has been assessed under the assumption that it will continue for the first half of the fiscal year. Reflecting this we forecast to sustain growth in both revenue and profit.

The above forward-looking statements are based on the information available to us and assumptions we believe reasonable at this time. Forward-looking statements do not represent any guarantee of future performance or of any specific outcome and are subject to various risks and uncertainties.

There is a possibility that COVID-19 will have a significant long-term effect on the overall economy. It is impossible to forecast the concrete impact beyond the first half of the fiscal year at this point in time. Therefore the potential long-term impact is not reflected in the above earnings forecasts. We will continue to carefully assess the impact on our earnings and immediately announce any necessary revisions in the future.

(6) Significant Matters about Going Concern Assumption

None

2. Consolidated Financial Statements

(1) Consolidated Statement of Financial Position

	Previous fiscal year (March 31, 2019)	Current fiscal year (March 31, 2020)
	Millions of yen	Millions of yen
Assets		
Current assets		
Cash and cash equivalents	9,288	11,996
Trade and other receivables	6,608	6,362
Other financial assets	30	10
Inventories	372	151
Income and other taxes receivables	186	-
Other current assets	1,348	1,526
Total current assets	17,834	20,047
Non-current assets		
Property, plant and equipment	30,621	38,152
Goodwill	12,646	12,646
Intangible assets	16,214	15,362
Other financial assets	2,872	3,012
Deferred tax assets	1,201	821
Other non-current assets	578	735
Total non-current assets	64,134	70,732
Total assets	81,968	90,779

	Previous fiscal year (March 31, 2019)	Current fiscal year (March 31, 2020)
	Millions of yen	Millions of yen
Liabilities and Equity		
Liabilities		
Current liabilities		
Borrowings	1,634	1,938
Trade and other payables	5,240	5,310
Other financial liabilities	748	2,609
Income and other taxes payable	817	1,369
Provisions	182	181
Other current liabilities	4,241	4,214
Total current liabilities	12,864	15,624
Non-current liabilities		
Borrowings	40,060	38,223
Other financial liabilities	2,827	7,146
Retirement benefit liabilities	598	718
Provisions	2,797	2,880
Deferred tax liabilities	2,880	2,668
Other non-current liabilities	1,203	810
Total non-current liabilities	50,367	52,448
Total liabilities	63,231	68,072
Equity		
Common stock	5,150	5,150
Capital surplus	5,951	4,640
Retained earnings	5,575	10,873
Treasury Stock	(0)	(0)
Other components of equity	(28)	46
Total equity attributable to owners of the parent	16,647	20,709
Non-controlling interests	2,089	1,997
Total equity	18,736	22,706
Total liabilities and equity	81,968	90,779

(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

(Statement of Income)

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
	Millions of yen	Millions of yen
Net sales	49,219	51,494
Cost of sales	33,375	34,393
Gross profit	15,843	17,100
Selling, general and administrative expenses	7,427	8,176
Other income	56	172
Other expenses	1,006	427
Operating profit	7,466	8,669
Finance income	33	61
Finance costs	512	521
Profit for the period before income taxes	6,987	8,209
Income taxes	1,945	2,541
Profit for the period	5,042	5,668
Profit for the period attributable to:		
Owners of the parent	4,642	5,296
Non-controlling interests	399	371
Profit for the period	5,042	5,668
Earnings per share		
Basic earnings per share (yen)	92.85	105.93
Diluted earnings per share (yen)	-	-

(Consolidated Statement of Comprehensive Income)

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
	Millions of yen	Millions of yen
Profit for the period	5,042	5,668
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
Remeasurements of defined benefit plan	(19)	1
Total items that will not be reclassified to profit or loss	65	76
Total other comprehensive income, net of tax	65	76
Comprehensive income for the period	5,107	5,744
Comprehensive income for the period attributable to:		
Owners of parent	4,707	5,373
Non-controlling interests	399	371
Comprehensive income for the period	5,107	5,744

(3) Consolidated Statement of Changes in Equity

	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	Remeasurements of defined benefit plan
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
As of April 1, 2018	5,150	5,883	953	-	(114)	-
Profit for the year	-	-	4,642	-	-	-
Other comprehensive income	-	-	-	-	85	(19)
Comprehensive income for the year	-	-	4,642	-	85	(19)
Transfer to retained earnings	-	-	(19)	-	-	19
Purchase of Treasury Stock	-	-	-	(0)	-	-
Cash dividends	-	-	-	-	-	-
Contributions to directors' remuneration from shareholders	-	67	-	-	-	-
Total transactions with owners	-	67	(19)	(0)	-	19
As of March 31, 2019	5,150	5,951	5,575	(0)	(28)	-
Profit for the year	-	-	5,296	-	-	-
Other comprehensive income	-	-	-	-	75	1
Comprehensive income for the year	-	-	5,296	-	75	1
Transfer to retained earnings	-	-	1	-	-	(1)
Purchase of Treasury Stock	-	-	-	-	-	-
Cash dividends	-	(1,310)	-	-	-	-
Total transactions with owners	-	(1,310)	1	-	-	(1)
As of March 31, 2020	5,150	4,640	10,873	(0)	46	-

	Equity attributable to owners of the parent		Non-controlling interests	Total
	Other components of equity	Total		
	Total			
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
As of April 1, 2018	(114)	11,872	2,099	13,972
Profit for the year	-	4,642	399	5,042
Other comprehensive income	65	65	-	65
Comprehensive income for the year	65	4,707	399	5,107
Transfer to retained earnings	19	-	-	-
Purchase of Treasury Stock	-	(0)	-	(0)
Cash dividends	-	-	(409)	(409)
Contributions to directors' remuneration from shareholders	-	67	-	67
Total transactions with owners	19	67	(409)	(342)
As of March 31, 2019	(28)	16,647	2,089	18,736
Profit for the year	-	5,296	371	5,668
Other comprehensive income	76	76	-	76
Comprehensive income for the year	76	5,373	371	5,744
Transfer to retained earnings	(1)	-	-	-
Purchase of Treasury Stock	-	-	-	-
Cash dividends	-	(1,310)	(463)	(1,774)
Total transactions with owners	(1)	(1,310)	(463)	(1,774)
As of March 31, 2020	46	20,709	1,997	22,706

(4) Consolidated Statement of Cash Flows

	Previous fiscal year (From April 1, 2018 To March 31, 2019)	Current fiscal year (From April 1, 2019 To March 31, 2020)
	Millions of yen	Millions of yen
Cash flows from operating activities		
Profit for the period before income taxes	6,987	8,209
Depreciation and amortization	6,741	8,232
Finance income	(33)	(61)
Finance costs	512	521
Loss on disposal of property, plant and equipment	115	342
(Increase) decrease in trade and other receivables	(551)	265
(Increase) decrease in inventories	(457)	108
Increase (decrease) in trade and other payables	243	(484)
Other	30	(914)
Subtotal	13,590	16,219
Interest received	0	0
Dividend income received	-	33
Interest paid	(355)	(374)
Income taxes paid	(2,578)	(1,307)
Net cash provided by (used in) operating activities	10,655	14,570
Cash flows from investing activities		
Purchases of property, plant and equipment	(4,779)	(5,804)
Proceeds from sale of property, plant and equipment	126	39
Disposals of property, plant and equipment	(193)	(245)
Purchases of intangible assets	(323)	(223)
Other	(231)	(78)
Net cash (used in) provided by investing activities	(5,400)	(6,311)
Cash flows from financing activities		
Repayments of long-term borrowings	(1,986)	(1,634)
Repayments of lease liabilities	(972)	(2,124)
Dividends paid to non-controlling interests	(409)	(463)
Dividends paid	-	(1,309)
Proceeds from sale and leaseback	327	-
Purchase of Treasury Stock	(0)	-
Other	(203)	(17)
Net cash (used in) provided by financing activities	(3,244)	(5,550)
Net increase (decrease) in cash and cash equivalents	2,010	2,708
Cash and cash equivalents at the beginning of the period	7,278	9,288
Cash and cash equivalents at the end of the period	9,288	11,996

(5) Notes to Consolidated Financial Statements

(Going Concern Assumption)

Not applicable.

(Changes in accounting policies)

Accounting policies applied to the consolidated financial statements of the current fiscal year are the same as the accounting policies applied to the consolidated financial statements of the previous fiscal year, except as explained in the following paragraph.

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.

(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 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 current fiscal year net cash provided by operating activities increased by 1,338 million yen and net cash used in financing activities increased by 1,338 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 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 IFRSs, 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. By the nature of the estimates or assumptions, 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.

(Segment Information)

(a) Overview of reportable segments

The Group is mainly engaged in the provision of internet services (optical internet connection services, etc.), network services (leased circuit services, VPN connection services, etc.), and condominium internet services (building-wide condominium internet service , etc.) in a single operating segment of telecommunications business based on the Telecommunications Business Act.

The outline of each line of service is as follows:

- Optical internet connection services: This service includes high-speed data transmission by using optical fibers for access lines. The Group provides proprietary, high-quality service.

・Leased circuit services: This is a service which connects two specific locations and is characterized by high reliability, quality and security. The Group has a competitive advantage in terms of its ability to provide high-performance connections within Tokyo and between Tokyo, Nagoya, Osaka, and Fukuoka.

・VPN connection services: This is a private network service that configures a virtual communication tunnel among users connected to the internet. The Group offers a comprehensive, one-stop service from design to maintenance using various access lines.

・Building-wide condominium internet service: As an internet connection service for individual users, the Group provides this connection service for which all the condominium residents sign a contract with a service provider.

(b) Net sales and other operating results by segment

The Group is engaged in a single business segment providing telecommunications services.

(c) Information on products and services

Net sales to external customers by product and service are as follows:

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
	Millions of yen	Millions of yen
Internet services	20,721	20,641
Network services	13,881	14,838
Condominium internet services	10,947	11,317
Others	3,668	4,695
Total	49,219	51,494

(Earnings per Share)

The calculation basis for basic earnings per share is as follows:

	Previous fiscal year (From April 1, 2018 To March 31, 2019)	Current fiscal year (From April 1, 2019 To March 31, 2020)
Profit attributable to owners of the parent (Millions of yen)	4,642	5,296
Average number of shares of common stock during the period (shares)	49,999,991	49,999,939
Basic earnings per share (yen)	92.85	105.93

Notes:

1. Diluted earnings per share are not calculated as there are no potential dilutive shares.
2. The Company conducted a stock split of 5 shares for each share of common stock with an effective date of September 28, 2018. The amounts of basic earnings per share were calculated based on the assumption that the stock split had been conducted at the beginning of the previous fiscal year.

(Significant subsequent events)

Not applicable.