

ARTERIA Networks Corporation

Adjourned Meeting of the 7th AGM

September 15, 2022

Moderator: Thank you very much for attending the adjourned meeting of the seventh annual general meeting of shareholders of ARTERIA Networks Corporation.

Prior to the opening of the meeting, the secretariat would like to make a few remarks.

Please refrain from eating on site. Smoking is prohibited in the main building. Smoking is not permitted.

Please be sure to put your cell phones and other sound-producing devices on silent mode or turn them off, as they may cause inconvenience to other shareholders. Photography, recording, or video recording without permission is strictly prohibited.

This venue is designed to be resistant to earthquakes. In the event of a strong earthquake, please remain calm and wait for instructions from the staff.

Because we are concerned about the spread of COVID-19, all speakers and staff are wearing masks at this adjourned meeting. We would also like to ask all shareholders to wear masks and to be mindful of coughing etiquette when in the venue. At the chairperson's seat and the projector table, speakers may take off their masks to speak, but we have installed partitions to prevent infection.

We ask for your understanding and cooperation. Thank you all for your patience.

CEO Kabumoto, please begin.

Kabumoto: I am Koji Kabumoto, President and CEO. Thank you for taking time out of your busy schedule to attend this adjourned meeting of the annual general meeting of shareholders today.

In accordance with the provisions of the articles of incorporation of the Company, I will take the chair of this adjourned meeting.

Now, we will resume the seventh annual general meeting of shareholders of ARTERIA Networks Corporation, which has been suspended, and begin the adjourned meeting.

I would like to ask for everyone's cooperation in following my instructions as the chairman's instructions, in the conduct of the proceedings of this adjourned meeting.

In addition, as a countermeasure against the spread of COVID-19, we will shorten the time for this adjourned meeting as long as we can, giving priority to the safety and security of shareholders. I would like to ask for your cooperation in order to ensure the smooth proceedings of the meeting.

Please note that if a shareholder is coughing or otherwise appears to be in a poor state of health, the venue staff may ask him or her to leave the meeting. Thank you for your understanding.

At this adjourned meeting, we would like to accept questions and other comments from shareholders at once, after we have completed the explanation of the details of the matters to be reported. We will take one question per person at a time.

We have installed video cameras from the rear and sides to record the proceedings of this adjourned meeting. We appreciate your understanding and cooperation.

We will now proceed with today's agenda. The purpose of the meeting is as described on page one of the notice of the adjourned meeting in your hand.

First of all, I would like to reiterate the background of this adjourned meeting prior to the items to be reported.

On August 10, we received an investigation report from a Special Investigation Committee established including outside experts concerning a situation in which one of our employees was indicted on suspicion of obtaining illegal profits by abusing cell phone subscription fee services, incoming calls, and the access charge business system in conspiracy with a third party.

Based on the investigation by the Special Investigation Committee, we have determined that this matter will have no impact on our financial results for the fiscal year ended March 2022. On the same day, the Company also received an accounting audit report from the accounting auditor.

Subsequently, on August 15, we received an audit report from the Board of Corporate Auditors and completed the procedures related to the settlement of accounts for the seventh fiscal term, so we are holding this adjourned meeting to report on the financial statements and other details of the seventh fiscal year, as approved by our shareholders at the seventh annual general meeting of shareholders held on June 29, 2022.

We sincerely apologize to our shareholders for any inconvenience and concern this may have caused.

Next is the audit report of the Board of Corporate Auditors and the accounting auditor.

This one, including the results of the audit of the consolidated financial statements, is shown on pages 26 to 30 of the notice of the meeting in your hand.

Now, among the matters to be reported today, I would like to report on the contents of the business report, consolidated financial statements, and the Company's financial statements for the seventh term. The contents are as described on pages 4 to 25 of the notice of the meeting.

Today, we would like to present an overview of the contents through video, so please look at the front screen.

[Video Begins]

Company Representative: While the economy is currently showing signs of picking up in Japan, downside risks due to rising oil and raw material prices, the situation in Ukraine, and other factors must be watched closely.

In the information and telecommunications-related market in which the Group operates, demand continues to arise for new high-speed telecommunications and high-security network services due to the expansion of cloud computing use and the spread of telework.

In this business environment, overall business performance remained favorable through sales activities and cost control for core services.

Internet, network, and condominium internet services are the three businesses that the ARTERIA Group operates over its own proprietary fiber network. In addition, DX services were launched to capture new growth portfolios.

In the fiscal year ended March 2022, the demand for high-bandwidth, high-quality communication services has been increasing regardless of location, such as home or office, due to increased traffic from teleworking and online learning, as well as game distribution and live streaming.

In internet services, sales of FTTx and ISP services increased compared to the previous year.

Our FTTx services continued to experience strong demand for high-quality broadband services. We have expanded the service areas for our best effort-based services, offering maximum uplink and downlink speed of 10 Gbps, sustaining solid sales.

In services for ISPs, Crosspass, an IPv6-enabled VNE service launched in April 2020, is expanding its offerings, partly due to increased use by optical collaboration providers and corporate customers seeking higher quality services.

In October 2021, we extended and expanded our own IP backbone to Los Angeles, San Jose, and Singapore to achieve international redundancy.

We will continue to expand our IP backbone and provide high-quality internet access services with low latency by deepening cooperation and collaboration not only with domestic connection providers, but also with overseas connection providers.

In network services, sales of mainstay leased circuits and VPN increased compared to the previous year.

In leased circuit services, sales are expanding due to strong sales to general companies, content service providers, and telecommunications carriers that are promoting DX.

In the Inzai area of Chiba Prefecture and the Saito area of Osaka Prefecture, where our data centers are concentrated, we are also working to capture demand for leased circuit services from OTT operators and cloud service providers.

In VPN services, VANILA, which utilizes NFV technology, was launched in January 2022. We will continue to expand and improve our services so that our customers can use our network even more comfortably.

In condominium internet services, in addition to traditional needs such as video viewing, telecommuting and online classes have increased demand for high-quality connections day and night, leading to steady sales growth in both the condominium sales and rental markets.

We captured the top market share for the eighth consecutive year in the whole-building type ISP for condominiums in Japan survey published by MM Research Institute. In addition, we have released the whole-building package type internet access service for detached houses and have begun offering this service to large-scale detached house subdivisions.

The Company continues to target the rental market as a growth target, combining high-grade services with value-added services such as smart locks to enhance competitiveness and achieve sales growth.

Based on these existing businesses, we have launched DX services to meet new demands.

In August 2021, we began offering Connectix, a priority communication option that enables condominium residents to use a faster communication environment. Connectix has been patented and is gradually expanding the number of buildings it can serve.

Furthermore, we established GameWith ARTERIA Corporation, a joint venture with GameWith, Inc. GameWith ARTERIA plans to promote the business of operating a distribution studio for e-sports competitions and a communication service business for e-sports players and online gamers.

In this era of rapidly changing digital shifts, ARTERIA Networks will continue to provide more comfortable services with the guiding principle of contributing to the progress of society while contributing to the development of our customers and other stakeholders.

Here is a summary of our consolidated financial results for the fiscal year ended March 2022.

In the fiscal year ended March 2022, net sales increased by 3.9% YoY to JPY55.4 billion. Operating profit increased by 7.6% YoY to JPY9.5 billion, and profit for the year attributable to owners of the parent increased by 9% YoY to JPY6 billion, continuing the trend of increased sales and profit.

We were able to achieve the forecast for the first year of the mid-term plan, mainly for our main services.

EBITDA increased by 4% YoY to JPY18.4 billion, and we successfully maintained the EBITDA margin at the 30% level, as targeted in our mid-term plan.

Free cash flow decreased by 1.5% YoY to JPY6.5 billion.

Borrowings and lease liabilities were JPY47.3 billion, and the net leverage ratio slightly increased to 2.1 times, maintaining an appropriate level.

Regarding sales by service, the Group as a whole achieved a growth rate of 5% by capturing demand for new high-speed communications and high-security network services due to the expansion of cloud computing use and the spread of teleworking.

Next, I will explain our forecast for the current fiscal year.

In the internet, steady growth in FTTx services by further strengthening collaboration with partners, and in services for ISPs, promotion of migration to Crosspass, IPoE service.

In network services, expansion of business opportunities for leased circuit services by enhancing and extending the backbone network, and sales expansion of the NFV service VANILA.

In condominium internet services, in addition to the existing market, we will strengthen our sales efforts in new markets such as the whole-building package type internet access service for detached houses.

In addition, to achieve the goals set forth in the mid-term plan, in DX services, we will expand our lineup of consumer communication services, launch the Portas service platform, enter the e-sports market and expand our non-communication services, and begin full-scale provision of various services, with a view to incorporating them into a new growth portfolio.

As a result of these efforts, the consolidated forecast for net sales for the fiscal year ending March 2023 is JPY58 billion, a 4.7% increase YoY. Other business results are also expected to maintain the trend of increased sales and profit.

For the fiscal year ended March 2022, the Company paid a dividend of JPY60.45. We recognize that one of our important duties as a company is to continue to distribute a stable dividend to our shareholders, targeting a dividend payout ratio of around 50% over the medium to long term.

For the current fiscal year, we plan to pay a dividend of at least JPY60.52 per share twice a year, based on the lower limit of the dividend forecast at the beginning of the fiscal year.

The ARTERIA Group has formulated a basic sustainability plan for 2030. Based on this basic plan, the Group will further promote activities to contribute to the realization of a sustainable world through the provision of information and telecommunications services, which is our core business.

[Video Ends]

Kabumoto: This concludes our business report, consolidated financial statements, and the Company's financial statements for the seventh term.

Finally, I would like to report on our efforts to prevent recurrence based on the results of the Special Investigation Committee's investigation into the arrest and indictment of one of our employees, as I mentioned at the beginning of this report.

As reported in the timely disclosure of August 10, the results of the Special Investigation Committee's investigation revealed no evidence of involvement by other officers or employees of the Company, i.e., no systematic involvement by the Company, in the arrest and indictment of the Company's employees.

However, although the arrested employee was not found to be complicit in the crime, it was discovered that he had personally received financial benefits from the representative of the agency suspected of involvement in the case and that the access charge system was abused.

Measures to Prevent Recurrence

- **Implement feasible and effective collusion prevention measures for sales representatives**
- **Implementation of various measures to promote compliance awareness**
- **Improvement of sensitivity to and thorough identification of risks inherent in side businesses**

Based on the results of the investigation and the committee's recommendations, the Group will take the following three measures to prevent recurrence: introduce measures to prevent collusion among sales representatives, implement various measures to instill compliance awareness, and identify and improve sensitivity to risks inherent in non-core businesses.

Regarding the third point, as a risk reduction measure for the incoming call access charge business, we have decided to withdraw from and reduce the size of this business, and we have begun negotiations with our business partners. In addition, we will work to reduce the social risk of fraud by sharing the problems we have experienced with other companies engaged in similar businesses.

The details of other measures to prevent recurrence were reported in a timely disclosure dated September 7.

We take the findings and recommendations of the Special Investigation Committee very seriously, and all employees, as well as management, are deeply aware of this series of experiences and the lessons learned from them and will formulate and implement concrete measures to prevent recurrence.

That's all for our report.

Question & Answer

Kabumoto: I will now take your questions about the items that have been reported. If you would like to ask questions, please raise your hand, and I will ask you to step forward to the microphone. Please note that the microphone will be disinfected by a staff member each time the shareholder who speaks changes. We will take one question per person at a time.

Now, I will take questions. Does anyone have any questions?

Participant: This is the second time that a scandal has occurred in a short period of time, and to be honest, I don't feel any enthusiasm for the current explanations or for the video explanations. There is a tremendous lack of enthusiasm for management from a shareholder's perspective.

To be honest, scandals do not occur when management is looking forward and trying desperately to improve business performance. Honestly, I doubt very much how many of these people are thinking about improving their performance from morning to night.

I would like to ask you, in the event that a TOB or similar action is taken in the future and the price is reasonable, of course the conclusion will not be known until you bring it to the Board of Directors' meeting, but as the President, what do you think about this?

Are you supposed to ask the parent company to find out? I'm wondering if you don't think that you have to consider TOB positively? Or Marubeni itself is not a synergy working company. I think it would be better for the country's economy if it were given to a company that works in synergy. If so, I would like to hear the President's opinion on such an option.

Kabumoto: Thank you.

This was our second scandal in a short period of time, following 2019. There was a case of alleged violation of the Antimonopoly Law, and I apologized for that. The fact that it happened twice in such a short period of time is exactly as you have pointed out, and I sincerely apologize for that.

I think what you meant was that if management is strong, this should not happen, and if the management team is enthusiastic about improving performance, this would not normally happen. I believe it was such a reprimand. I think it was a reprimand for how many people think and work hard from morning to night.

We really do take your comments seriously and will do our best to take further measures. I can promise you that. And I believe that all of us, every member here and sitting down, are working hard every day to improve the performance of our company.

As you mentioned in your question, what I think as the President in the event of a TOB, etc., in the future and if the price is reasonable. I think your point was that our parent company is Marubeni, but we do not have much synergy with it, so you are wondering if we will only listen to the parent company's intent. I believe your question was about whether or not we would consider it if there was a TOB and it was reasonable.

It is difficult to answer hypothetical questions, but I would like to express my personal opinion. I recognize that the role of management and executives is to make a firm decision on what is best for the Company's stakeholders, shareholders, employees, and business partners. Therefore, I personally believe that if it is truly conducive to growth for our company, we should give it a thorough consideration.

And while there may naturally be times of disagreement with the parent company in doing so, we believe that this is our responsibility as management. Therefore, we would like to positively consider being subject to TOB and vice versa.

I hope you understand that this is a hypothetical question and my personal opinion, but that is my opinion.

I would like to take a question.

Participant: Please let me ask a question.

It is said that the stock price is the manager's report card. I am not a special shareholder, but I am a person who holds a small number of ordinary shares, a small number of shares, but a company with a high stock price has a solid corporate management and a solid manager who participates in the management of the company. I think there is a big reason why the stock price is going down.

As the first person asked, I think one reason is the quality of the management. Everyone who is present here today is concerned about the stock price. We are well aware of that. In the first place, how much interest the Company has in the Company's stock price. I would appreciate it if you could do something about that. That is the first point.

Stock price movements are very subtle. It represents the reality very well. Even shareholders don't just buy and sell, or sell and buy. It's not about going up and down. Company's activities.

I have to admit that when I first came here today, I was wondering what in the world this company is doing. I think people in general think like that, although there was quite a reasonable explanation earlier. The Company itself needs to be more upfront and explain itself.

You are all lined up here on the front line, but first of all, as I mentioned earlier, Marubeni holds 50% of the shares. I think you are in that kind of great comfort. I think that's what makes fundamental difference.

So, in this way, staff or employees may have caused scandals. The staff has nothing to do with it. It is your job to manage it. And if you can't figure out how to handle that, then don't do it. What do you think?

As I said at the beginning, the stock price represents the employee's, your performance. It all comes down to that. I would like you to take a closer look at the movement of the stock price and reflect on yourselves, not on whether the stock price is high or low, but on what kind of state the stock price has gotten into. I hope you understand what I mean.

That is all.

Kabumoto: Thank you. I have received questions and some comments from attendance.

The stock price is the Company's record card, or rather, the manager's report card. Companies with high scores are run well. Our stock price is falling, and to what extent we feel responsible for that. In the first place, to what extent we care about the stock price. I think you were rebuking us for taking advantage of Marubeni that holds 50% of our shares.

You also commented that it is difficult to understand the Company and our telecommunications business, and you are wondering whether we can explain it well enough to the market and our users.

First of all, how we deal with stock prices. I believe that your questions and comments were such a reprimand, so I would like to express this as my opinion.

I think the recent scandal has definitely caused shareholders or institutional investors who were planning to buy to refrain from doing so. This matter is a bitter one for us. As mentioned in your earlier question, we had a case in 2019, and although we thought we had done everything we could to ensure compliance from that point on, I believe that we were still not doing enough. I believe that this has affected the share price to some extent.

Therefore, I think we should reflect on this and take responsibility for it. We have announced disposition of the involved individuals, but as the share price represents the Company's value, it is our major responsibility to raise the share price in order to repay our shareholders.

I also watch the stock price every day with great interest all the time. I am truly very disappointed, and I think this is partly due to the incident I mentioned earlier.

On the other hand, I think you are concerned about our profitability. Last term, as we announced, there was a onetime gain. Since that will be eliminated this fiscal year, the point is if we will be able to achieve our disclosed forecast. I think that is what the market is watching closely.

Our mid-term plan is very aggressive. I believe that the market is watching closely to see if this can really be realized.

Therefore, we are doing our utmost to achieve the disclosed forecast for this fiscal year. If we can achieve this goal, we believe that we will make great progress toward achieving the goals of our mid-term plan, and we expect that our stock price will rise in tandem with, or rather, at the end of, this process.

I believe that the biggest impact on the share price is to generate a solid profit, and I have been asked by institutional investors whether we are doing all right. We will make every effort to control sales and cost of sales, etc., to achieve our mid-term plan and to improve our stock price.

Regarding IR, as mentioned earlier, we are number one in the internet for condominiums, and the other day, I heard that we are number one in a magazine. I think it was Nikkei Computer. In a Nikkei magazine survey, we were ranked number one in customer satisfaction for our corporate network services, such as leased circuits and internet. We are number one in the network businesses.

Last year was a little different, but we have just returned this term.

I think we are still lacking, but there are some areas that are being evaluated as such. We will do our best this year and in the future to raise the share price and meet the expectations of our shareholders.

Did I answer your question? Thank you very much.

Does anyone have any other questions? Since there are no further questions, I would like to conclude the question-and-answer session.

Since there are no resolutions to be made today, this concludes all matters for the purpose of today's meeting.

I would like to express my best wishes for the continued good health of our shareholders and ask for your continued support and cooperation in our operations.

Thank you very much for your time today.