

ARTERIA Networks Corporation

8th Annual General Meeting of Shareholders

June 28, 2023

Moderator: Thank you very much for coming today to the 8th 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 building. Please refrain from smoking. Please be sure to put your cell phones and other sound-producing devices on silent mode or turn them off, as they may disturb other shareholders. Photography, recording, or videotaping without permission is strictly prohibited.

This venue is designed to be earthquake resistant. In the event of a strong earthquake, please remain calm and wait for instructions from the staff. We appreciate the understanding and cooperation of our shareholders.

Thank you all for your patience. CEO Kabumoto, please.

Kabumoto: My name is Koji Kabumoto. Thank you for attending this general meeting of shareholders today. In accordance with the Company's articles of incorporation, I am pleased to serve as chairman of this general meeting of shareholders.

The 8th Annual General Meeting of Shareholders of ARTERIA Networks Corporation is now in session.

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The agenda for today's purpose is as shown on page two of your Notice of Convocation.

I would like to ask for your cooperation in following the instructions of me, the chairperson, in conducting the proceedings of this meeting. For the sake of smooth proceedings, we ask that shareholders please be considerate of their surroundings.

Please be advised that the staff at the venue may ask shareholders with obvious health problems, such as a coughing fit, to leave the venue.

At this general meeting of shareholders, we would like to accept questions and other comments from shareholders in a single session after the presentation of the agenda and explanation of the contents of the agenda for resolutions.

Please note that each shareholder may ask only one question at a time.

Finally, a video camera is used to record the proceedings of the meeting from the rear and sides. We appreciate your understanding and cooperation.

We will now move on to the agenda.

In order to save time, I will omit reporting the number of shareholders present at this meeting, etc. However, the quorum for the consideration of all proposals, including those submitted by yesterday and those exercised via the Internet, was present.

監査報告

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The audit reports of the Board of Corporate Auditors and the Accounting Auditor, including the audit results of the consolidated financial statements, are set forth on pages 37 through 41 of your Notice of Convocation.

報告事項

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I would now like to report on the contents of the business report, the consolidated financial statements, and the financial statements of the Company for the 8th fiscal year, which are among the matters to be reported today.

The contents are as described on pages 14 through 36 of your Notice of Convocation, but I would like to report on the outline.

In Japan, the economy is currently recovering moderately under the “with-coronavirus” policy. On the other hand, amid the protracted situation in Ukraine and the continued rise in prices, we need to continue to monitor the downside risks to the economy due to supply-side constraints and tightening of global monetary conditions.

In the information and telecommunications market in which the Group operates, the expansion of cloud computing use and the spread of teleworking continue to generate demand for new high-speed communications and highly secure network services. Under this business environment, sales of core services continued to grow steadily.

Excluding the impact of the gain on the transfer of the data center business that occurred in the fiscal year ended March 31, 2022, mainstay services continued to post an upward trend in revenue, mainly in monthly billing sales, and in addition, gross profit grew steadily as a result of cost control through structural reforms.

In Internet services, sales of IP telephony services declined from the previous year, but sales of FTTx and services for ISPs increased from the previous year, resulting in steady growth in overall Internet service sales.

In FTTx services, although the spread of teleworking has run its course, demand for broadband services continued to grow as cloud computing usage continued to expand.

In services for ISPs, demand for high-quality services increased, and the service of IPv6-compliant Cross Pass expanded.

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

Sales of leased circuit services increased on the back of growing demand for circuit services with high reliability, quality, and security from general companies that continue to promote DX, other OTTs, and telecommunications carriers.

In VPN services, sales of cloud connection services and our high-quality back-bone network services increased amid the growing use of cloud services and mobile devices.

In addition, orders for VANILA, which utilizes NFV technology, increased as a result of continued expansion of the service lineup.

In the condominium Internet service, sales expanded steadily in both the condominium sales and rental markets. We are expanding our service lineup to meet the needs for high-speed and high-quality Internet services, including the launch of an all-in-one Internet service that provides up to 10 Gbps up and down to each condominium unit.

In the condominium market, the percentage of building-wide model installations is on the rise, and the Group maintained a stable order flow. Orders also increased in the rental market as demand for high-quality services increased due to the spread of telecommuting and video streaming services.

In DX services, Connectix has also contributed to differentiating itself from competitors in the introduction of condominium Internet services and is sequentially expanding the number of buildings to which it can provide services. Furthermore, in Q1 of the fiscal year ended March 31, 2023, we made GameWith, Inc. an equity-method affiliate, and orders for GameWith Hikari, a high-definition ISP service for e-sports offered by the Company, grew steadily.

財務ハイライト

【単位：億円】

	2022年3月期	2023年3月期	増減額	増減率
売上高	554	595	+40.5	+7.3 %
営業利益	95	95	△0.7	△0.7 %
親会社帰属 当期利益	60	59	△1.6	△2.6 %

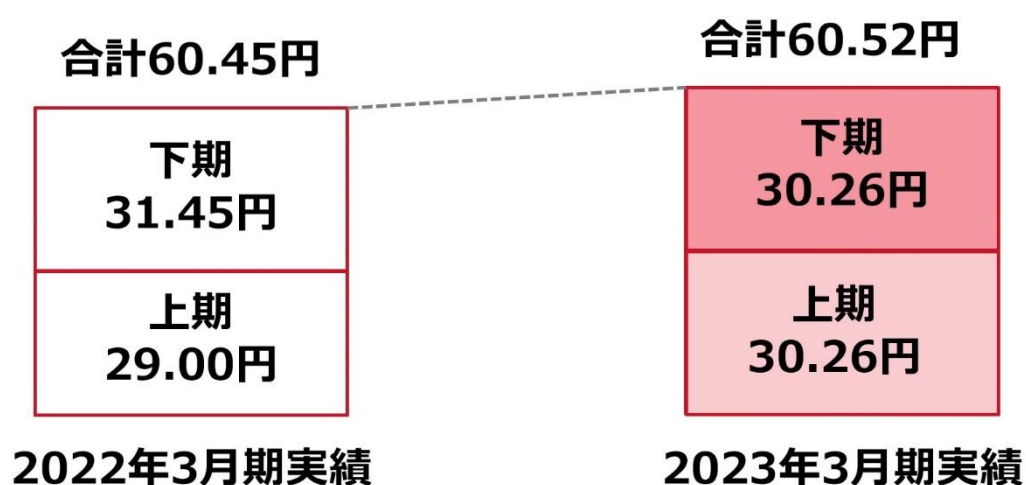
As a result of the above, net sales for the fiscal year ended March 31, 2023, increased 7.3% from the previous year to JPY59.5 billion. Operating income decreased 0.7% YoY to JPY9.5 billion, and net income attributable to the parent company decreased 2.6% YoY to JPY5.9 billion. Although profits continued to increase on a gross profit basis, this was not enough to offset one-time expenses incurred for investigation costs related to the establishment of a special investigation committee for the access charge incident. As a result, operating income and other operating income decreased from the previous fiscal year.

EBITDA increased 3.9% YoY to JPY19.2 billion, achieving the goal of maintaining EBITDA margin at the 30% level in the mid-term plan.

Free cash flow was JPY3.3 billion, down 49.6% from the previous year, due to expenditures for the acquisition of shares in equity-method affiliates and an increase in capital expenditures.

Total debt and lease obligations for the period amounted to JPY52.8 billion, and the net leverage ratio increased slightly to 2.4 times but remained at an appropriate level.

配当政策について



For the fiscal year ended March 31, 2023, the Company declared a dividend of JPY60.52 per share, in line with the dividend forecast at the beginning of the fiscal year.

Finally, I would like to discuss our recently announced statement of opinion regarding the planned commencement of a tender offer for our company's shares.

On October 11, 2022, the Company received a joint proposal from Marubeni Corporation and Secom Co., Ltd, the controlling shareholders of the Company, regarding a tender offer for the Company's shares.

In response, the Company's Board of Directors, at its meeting held on May 11, resolved to express its opinion in favor of the tender offer and recommend that the Company's shareholders tender their shares in the tender offer, if it is launched, as the Company's opinion at this time.

In order to accelerate our efforts in new growth areas while maintaining and strengthening the competitiveness of our existing core services, it is important for us to go private through the Transactions, including the tender offer, and to utilize the management resources of Marubeni Corporation and Secom Co., Ltd thereby strengthen and promote cooperation between the two companies. We have also come to the conclusion that this is the best option for improving our corporate value.

We would appreciate the understanding of our shareholders.

This concludes our report on the contents of the business report, the consolidated financial statements and the financial statements of the Company for the 8th fiscal year.

第1号議案 取締役5名選任の件

1 再任	かぶもと 株本	こうじ 幸二	4 再任 社外 独立	えさき 江崎	ひろし 浩
2 再任	ありた 有田	だいすけ 大助	5 再任 社外 独立	みやけ 三宅	いちろう 伊智朗
3 再任	おおくぼ 大久保	おさむ 修			

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I would like to continue by explaining the details of the resolutions to be adopted at this general meeting of shareholders.

Proposal One is election of five (5) Directors. The terms of office of all five (5) current Directors will expire at the conclusion of this general meeting of shareholders. Therefore, we request the election of all five (5) Directors at once. The names and brief personal histories of the candidates for Directors are set forth on page six through page 10 of the Notice of Convocation.

第2号議案 監査役1名選任の件

いはら こういち
新任 井原 孝一

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Proposal Two is election of one (1) corporate auditor. The term of office of one (1) corporate auditor, Mr. Koichi Mokudai, will expire at the conclusion of this general meeting of shareholders. The name and brief personal history of the candidate for corporate auditor are as indicated on page 11 of the Notice of Convocation.

The above is an explanation of the contents of each agenda item.

Question & Answer

Kabumoto: We will now begin our deliberations, and we will take questions regarding the purpose of this general meeting of shareholders, after which we will adopt a resolution on the matters to be resolved.

Now, is there anyone who would like to ask a question? Please, 10th row from the front in section A.

Participant:

In recent years, it has been the norm that personal names cannot be given in this case from the standpoint of protecting personal information. I would like you to take that into consideration. Naturally, the number alone should be enough to tell us. That is what I'm asking for.

Also, regarding the form of a corporate acquisition, I can't say I've read all of this, so this may be a bit of a dumb question. If this is not easily complied with, what will happen to the shareholders afterwards?

Kabumoto:

Your question was regarding TOB or tender offer. I assume that your question was about what happens if the shareholders do not accept the TOB or tender offer.

In the event that we are unable to acquire all of the Company's shares in the tender offer, the tender offer is scheduled to commence in August, and if we are unable to acquire all of the Company's shares at that time, a squeeze-out procedure will be implemented to ensure that only the tender offeror will acquire the Company's shares.

The squeeze-out procedure will be initiated after the tender offer is completed, and although it may be extreme, Marubeni and Secom have decided on two-thirds of the total number of shares to be purchased. If more than that amount is collected through the tender offer, the squeeze-out procedure will be initiated, and the purchase will be made in a mandatory manner. The price will be the same as the price of the tender offer. Would this answer your question?

Now I would like to move on to the next question. Is there anyone here? Go ahead.

Participant: This is not so much a question as it is a vote, which will probably take the form of a show of hands or a round of applause. In the interest of saving time, as long as the votes are counted first, it would not be a problem, however, it should be easy to count every vote in the modern era. I can tell you that all companies end up not counting in spite of this.

Is there any plan to fix these things in the future? When you hold a general shareholders' meeting, the meeting is over just with applause, without knowing the number of shares, without knowing the number of hands raised. If you can read the votes from the beginning, there is no need to hold the shareholders' meeting. Nevertheless, it would be absurd to say that the meeting is held only for the sake of formality.

If possible, it is still a basic rule of elections, whether it is the US presidential election or any other election, that every vote is counted until the last one. I am sure that you will be visiting other companies in the future, and I hope that you will consider this matter as well. That is all.

Kabumoto: Thank you very much.

Your question is about the procedure of raising hands and applauding when adopting resolutions but shouldn't the number of votes be counted up to one. Otherwise, you think that there would not be much point in holding a shareholders' meeting.

I see where you are coming from. On the other hand, I believe that it is an extremely valuable opportunity for us to hear directly from our shareholders, not only at this meeting but also at other shareholder meetings.

Therefore, in the case of our company in particular, although we have a controlling shareholder, I think it is very important to have a forum where we can receive your opinions. It would be very valuable for me to have you attend and directly express your opinions. I hope that you will continue to do so.

If the TOB is completed, we will be de-listed, but I am afraid that there will be systemic problems and various other issues when it comes to the actual counting of the shares. However, I think it is a valuable opinion and I will take it into consideration. Would this answer your question? Thank you very much.

Moderator: Okay, I will move on to the next question. Is there anyone who has question? Second from the front in section A, second from the left, please.

Participant: Thank you for your time today.

I would like to ask about TOB. I understand that Marubeni was the original parent company that purchased the TOB. I am not quite sure I understand the intention of SECOM's participation in the TOB. I would like to ask you what kind of synergy effects you think your company will have.

Kabumoto: Thank you very much. Now, please return to your seat.

I understand your question is that you understand the intention of Marubeni as the controlling shareholder of this tender offer, but you asked about the intention and significance of SECOM's participation and the synergies for our company.

This is a joint tender offer by Marubeni and Secom. As you mentioned, Marubeni owns about two-thirds of the Company and SECOM more than one-third. The synergy of SECOM's presence for our company is that SECOM is actually a so-called security company, but it is also involved in a wide range of other IT businesses.

For our part, since SECOM has customers and clients that it has cultivated through its security services and other activities, I think we can sell the network to SECOM's customers and do other such things.

Also, human resources in SECOM. We have been increasing our human resources, but we still do not have enough. We are thinking about the DX part, or something like that, and I think by working with SECOM, we will be able to replenish our human resources.

In addition, in the field of cybersecurity, which they are conducting as their business, I am not sure if the current SECOM alone is sufficient, but SECOM has stated that they would like to work together with us to develop this cybersecurity service. We would like to utilize their knowledge and human resources to create this cybersecurity service.

Furthermore, SECOM is involved in a wide range of data center businesses and has its own data center and owns a little less than two-thirds of AT TOKYO, which used to be operated by Tokyo Electric Power Company. There is a very close relationship between data centers and networks, and I understand that many of their data centers are owned by financial institutions in particular.

We are not necessarily strong in this field, and from this perspective, as I mentioned at the beginning, we expect to be able to approach our clients, including At TOKYO. Would this answer your question?

Thank you very much. Now, let me move on to the next question. Anyone here? May I?

Since it appears that there are no further questions, I would like to close the question-and-answer session and proceed to the vote on the agenda.

第1号議案 取締役5名選任の件

1 再任	かぶもと 株本	こうじ 幸二	4 再任 社外 独立	えさき 江崎	ひろし 浩
2 再任	ありた 有田	だいすけ 大助	5 再任 社外 独立	みやけ 三宅	いちろう 伊智朗
3 再任	おおくぼ 大久保	おさむ 修			

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We will now proceed to the voting on the agenda. Sorry. I would like to continue by asking for applause for the first item on the agenda. The Board of Directors will vote on the election of five (5) directors. Shareholders who are in favor of the original proposal, please applaud.

Thank you very much. As the majority of the votes cast, including those cast via the Voting Rights Exercise Form and the Internet, were in favor of the proposal, the proposal was approved and passed as originally proposed.

第2号議案 監査役1名選任の件

いはら こういち
新任 井原 孝一

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Next, we will vote on Proposal Two, election of one (1) corporate auditor. Shareholders who are in favor of the original proposal, please applaud.

Thank you very much. As the majority of the votes cast, including those cast via the Voting Rights Exercise Form and the Internet, were in favor of the proposal, the proposal was approved and passed as originally proposed.

With the above, all matters for the purpose of this general meeting of shareholders have been concluded, and this general meeting of shareholders is now adjourned. We wish all of our shareholders continued good health and look forward to your continued support and cooperation. Thank you very much for your time today.

Moderator: With that, the general meeting of shareholders is adjourned. Please be careful not to forget anything. Thank you very much for coming.