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, 2018 [IFRS]

February 14, 2019

Company name	ARTERIA Networks Corporation		Stock listing: Tokyo Stock Exchange – First Section	
Stock ticker	4423	URL http://www.arteria-net.com		
Representative	(Position)	Representative Director, President & CEO	(Name) Jun Kawakami	
Name of contact	(Position)	Director CFO and Managing Executive Officer	(Name) Seiichi Tateishi	TEL 03 (6823) 0349
Scheduled date of quarterly filing		February 14, 2019		
Scheduled date of dividend payment		-		
Supplemental quarterly results materials:		None		
Earnings results briefing:		None		

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

1. Consolidated Financial Results For the Nine-month Period Ended December 31, 2018 (April 1, 2018 – December 31, 2018, "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, 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
Nine-month period ended December 31, 2017	34,852	-	5,894	-	5,587	-	3,877	-	3,661	-	3,893	-

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine-month period ended December 31, 2018	71.59	-
Nine-month period ended December 31, 2017	73.23	-

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 operating profit		Adjusted profit before income taxes		Adjusted profit attributable to owners of the parent		Adjusted EBITDA	
		%		%		%		%
Nine-month period ended December 31, 2018	6,241	3.1	5,899	2.6	3,968	5.2	11,390	1.9
Nine-month period ended December 31, 2017	6,055	-	5,747	-	3,722	-	11,178	-

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of the parent	Ratio of equity attributable to owners of the parent
				%
As of December 31, 2018	79,491	17,528	15,537	19.5
As of March 31, 2018	78,560	13,972	11,872	15.1

2. Dividends

	Dividends per share				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2018	-	-	-	-	-
Fiscal year ending March 31, 2019	-	-	-		
Fiscal year ending March 31, 2019 (forecasted)				26.22	26.22

Note

Revision of forecasted dividend: None

3. Consolidated Financial Results Forecast for Year ending March 31, 2019 (April 1, 2018 to March 31, 2019)

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

	Net sales		Operating profit		Profit before income taxes		Profit		Profit for the year attributable to owners of the parent		Basic earnings per share
		%		%		%		%		%	Yen
Fiscal year ending March 31, 2019	48,213	1.3	7,854	4.0	7,417	3.8	5,159	5.0	4,876	5.8	97.52

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, 2018: 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

(3) Number of outstanding shares (Common stock)

(i) Number of shares outstanding (including treasury stock)	As of December 31, 2018	50,000,000 Shares	As of March 31, 2018	50,000,000 Shares
(ii) Number of treasury stock	As of December 31, 2018	- Shares	As of March 31, 2018	- Shares
(iii) Number of weighted average common stock outstanding (cumulative for all quarters)	As of December 31, 2018	50,000,000 Shares	As of December 31, 2017	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 (cumulative for all quarters) are calculated based on the assumption that the stock split had been conducted at the beginning of the previous fiscal year.

* This condensed interim consolidated financial report is not subject to interim 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 operating profit = operating profit + IPO preparation expenses

(2) Adjusted profit before income taxes = profit before income taxes + IPO preparation expenses

(3) Adjusted profit for the year (or period) attributable to owners of the parent = profit for the year (or period) attributable to owners of the parent + IPO preparation expenses – income taxes adjustment

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

(5) 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.

(6) Income taxes adjustments consist of income taxes attributable to the increase in taxable income due to the adjustment for IPO preparation expenses

(7) 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.

(8) Adjusted operating profit, adjusted net income, adjusted net income for the year (period) attributable to the owners of the parent, adjusted EBITDA are not prepared in accordance with article 193-2 (1) of the Financial Instruments and Exchange Act of Japan and have not been audited or reviewed by the Company's independent auditors.

(9) Adjusted operating profit, adjusted net income, adjusted net income for the year (period) attributable to the owners of the parent and adjusted EBITDA reflect 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.

(10) Adjusted operating profit, adjusted net income, adjusted net income for the year (period) attributable to the owners of the parent and adjusted EBITDA exclude certain items which impact profit. These non-IFRS measures should not be considered in isolation or as a substitute for the most comparable financial measures presented in accordance with IFRS. These indices are meant to be illustrative only and are calculated based on assumptions which might differ from those used by other companies and should therefore not be used as a basis for comparison.

Appendix

1. Qualitative Information / Consolidated Financial Statements, etc.

(1) Operational Results

During the third quarter, the Japanese economy followed a gradual recovery trend driven by factors such as improvement in the employment and income environment. However, concerns remain over the impact on the domestic economy of factors such as the trade issues, uncertainty around the global economy and the volatility of the financial markets.

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), big data, the internet of things (IoT), online video consumption, cloud-based services, 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, the Group announced its medium-term management plan in March 2018, which allows us to lever our strengths in internet services, network services and condominium internet services and focus our management resources in areas where we expect high growth to expand the provision of services.

In internet services, we expanded sales of our dedicated internet access Standard Gigabite Access under the UCOM Hikari Enterprise line. These dedicated internet access lines, provided to each of our corporate customers’ offices, allow them to enjoy a comfortable internet connection compared to shared access line services.

In network services, we added Check Point to our Secure Internet Gateway service. This new device allows secure access to the internet from VPN networks. Check Point accommodates up to 1Gbps and offers additional comprehensive security measures on top of the standard firewall functions.

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

As a result, during the third quarter net sales increased by 1,212 million yen (3.5%) year on year to 36,065 million yen; operating income decreased by 213 million yen (3.6%) year on year to 5,681 million yen due to an increase in IPO related and other costs; profit before income taxes for the quarter decreased by 247 million yen (4.4%) year on year to 5,339 million yen. Due to a decrease in expected taxable income, the estimated average annual effective tax rate was impacted favorably which led to lower income tax expenses. Profit increased by 3 million yen (0.1%) year on year to 3,881 million yen.

(2) Financial Position

	March 31, 2018	December 31, 2018	Change
Total assets (millions of yen)	78,560	79,491	930
Total equity (millions of yen)	13,972	17,528	3,556
Equity attributable to owners of the parent (millions of yen)	11,872	15,537	3,664
Ratio of equity attributable to owners of the parent (%)	15.1	19.5	4.4
Balance of borrowings (millions of yen)	43,751	42,333	(1,418)

During the third quarter, total assets increased by 930 million yen from the end of the previous fiscal year, to 79,491 million yen. Equity attributable to owners of the parent increased by 3,664 million yen year on year, to 15,537 million yen, due to an increase in retained earnings. As a result, the ratio of equity attributable to owners of the parent amounted to 19.5%. The balance of borrowings decreased by 1,418 million yen year on year, to 42,333 million yen, as a result of a prepayment according to a Sweep Excess Cash clause.

Overview of cash flows in the quarter

During the third quarter, the balance of cash and cash equivalents increased by 2,644 million yen year on year, to 7,397 million yen.

(Cash flows from operating activities)

An increase in income taxes paid and other payables resulted in a decrease of 631 million yen year on year in cash generated by operating activities, to 7,410 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 decreased by 1,539 million yen year on year, to 4,840 million yen.

Consequently, free cash flow (*) in the third quarter increased by 908 million yen year on year to 2,569 million yen cash generated.

(Cash flows from financing activities)

Cash used for financing activities increased by 401 million yen year on year, to 2,450 million yen, due to an increase in repayments of long-term borrowings and decrease in repayments of lease obligations.

* 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 in December 2018 (Japanese only).

The above forecast is estimated based on the information which the Company was able to obtain at the present point. However, actual results may be different due to various factors.

2. Quarterly Condensed Consolidated Financial Statements

(1) Quarterly Condensed Consolidated Statement of Financial Position

	Previous fiscal year (March 31, 2018)	Third quarter of the current fiscal year (December 31, 2018)
	Millions of yen	Millions of yen
Assets		
Current assets		
Cash and cash equivalents	7,278	7,397
Trade and other receivables	6,183	6,037
Other financial assets	54	64
Inventories	202	215
Income and other taxes receivables	-	913
Other current assets	1,236	1,168
Total current assets	14,954	15,797
Non-current assets		
Property, plant and equipment	29,119	30,429
Goodwill	12,646	12,646
Intangible assets	16,971	16,396
Other financial assets	2,751	2,863
Deferred tax assets	1,507	797
Other non-current assets	609	559
Total non-current assets	63,605	63,694
Total assets	78,560	79,491

	Previous fiscal year (March 31, 2018)	Third quarter of the current fiscal year (December 31, 2018)
	Millions of yen	Millions of yen
Liabilities and Equity		
Liabilities		
Current liabilities		
Borrowings	1,332	1,483
Trade and other payables	4,169	3,885
Other financial liabilities	872	739
Income and other taxes payable	1,648	489
Provisions	3	3
Other current liabilities	4,438	4,064
Total current liabilities	12,464	10,666
Non-current liabilities		
Borrowings	42,418	40,849
Other financial liabilities	1,650	2,801
Retirement benefit liabilities	445	550
Provisions	2,922	2,815
Deferred tax liabilities	3,103	2,953
Other non-current liabilities	1,584	1,325
Total non-current liabilities	52,124	51,296
Total liabilities	64,588	61,962
Equity		
Common stock	5,150	5,150
Capital surplus	5,883	5,883
Retained earnings	953	4,532
Other components of equity	(114)	(28)
Total equity attributable to owners of the parent	11,872	15,537
Non-controlling interests	2,099	1,991
Total equity	13,972	17,528
Total liabilities and equity	78,560	79,491

(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, 2017 (From April 1, 2017 to December 31, 2017)	For the nine-month period ended December 31, 2018 (From April 1, 2018 to December 31, 2018)
	Millions of yen	Millions of yen
Net sales	34,852	36,065
Cost of sales	23,215	24,190
Gross profit	11,637	11,875
Selling, general and administrative expenses	5,444	5,469
Other income	48	54
Other expenses	347	779
Operating profit	5,894	5,681
Finance income	25	25
Finance costs	332	366
Profit for the period before income taxes	5,587	5,339
Income taxes	1,710	1,458
Profit for the period	3,877	3,881
Profit for the period attributable to:		
Owners of the parent	3,661	3,579
Non-controlling interests	215	301
Profit for the period	3,877	3,881
Earnings per share		
Basic earnings per share (yen)	73.23	71.59
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, 2017 (From April 1, 2017 to December 31, 2017)	For the nine-month period ended December 31, 2018 (From April 1, 2018 to December 31, 2018)
	Millions of yen	Millions of yen
Profit for the period	3,877	3,881
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	16	85
Total items that will not be reclassified to profit or loss	16	85
Total other comprehensive income, net of tax	16	85
Comprehensive income for the period	3,893	3,966
Comprehensive income for the period attributable to:		
Owners of parent	3,677	3,664
Non-controlling interests	215	301
Comprehensive income for the period	3,893	3,966

(3) Quarterly Condensed Consolidated Statement of Changes in Equity

For the nine-month period ended December 31, 2017 (From April 1, 2017 to December 31, 2017)

	Equity attributable to owners of the parent					
				Other components of equity		
	Common stock	Capital surplus	Retained earnings	Financial assets measured at fair value through other comprehensive income	Total	Total
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
As of April 1, 2017	5,150	4,849	(3,630)	(130)	(130)	6,239
Profit for the period	-	-	3,661	-	-	3,661
Other comprehensive income	-	-	-	16	16	16
Comprehensive income for the period	-	-	3,661	16	16	3,677
Cash dividends	-	-	-	-	-	-
Changes in interests in a subsidiary	-	1,033	-	-	-	1,033
Other changes	-	(1,885)	-	-	-	(1,885)
Total transactions with owners	-	(851)	-	-	-	(851)
As of December 31, 2017	5,150	3,998	31	(114)	(114)	9,065

	Non-controlling interests	Total
	Millions of yen	Millions of yen
As of April 1, 2017	3,302	9,541
Profit for the period	215	3,877
Other comprehensive income	-	16
Comprehensive income for the period	215	3,893
Cash dividends	(404)	(404)
Changes in interests in a subsidiary	(1,099)	(66)
Other changes	(2,013)	(3,898)
Total transactions with owners	(3,517)	(4,369)
As of December 31, 2017	-	9,065

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	Financial assets measured at fair value through other comprehensive income	Total	Total
	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)	(114)	11,872
Profit for the period	-	-	3,579	-	-	3,579
Other comprehensive income	-	-	-	85	85	85
Comprehensive income for the period	-	-	3,579	85	85	3,664
Cash dividends	-	-	-	-	-	-
Total transactions with owners	-	-	-	-	-	-
As of December 31, 2018	5,150	5,883	4,532	(28)	(28)	15,537

	Non-controlling interests	Total
	Millions of yen	Millions of yen
As of April 1, 2018	2,099	13,972
Profit for the period	301	3,881
Other comprehensive income	-	85
Comprehensive income for the period	301	3,966
Cash dividends	(409)	(409)
Total transactions with owners	(409)	(409)
As of December 31, 2018	1,991	17,528

(4) Quarterly Condensed Consolidated Statement of Cash Flows

	For the nine-month period ended December 31, 2017 (From April 1, 2017 to December 31, 2017)	For the nine-month period ended December 31, 2018 (From April 1, 2018 to December 31, 2018)
	Millions of yen	Millions of yen
Cash flows from operating activities		
Profit for the period before income taxes	5,587	5,339
Depreciation and amortization	4,980	4,981
Finance income	(25)	(25)
Finance costs	332	366
Loss on disposal of property, plant and equipment	43	76
(Increase) decrease in trade and other receivables	(46)	112
(Increase) decrease in inventories	(123)	(66)
Increase (decrease) in trade and other payables	566	(217)
Other	(1,272)	(317)
Subtotal	10,043	10,250
Interest received	0	0
Interest paid	(257)	(260)
Income taxes paid	(1,743)	(2,578)
Net cash provided by (used in) operating activities	8,042	7,410
Cash flows from investing activities		
Purchases of property, plant and equipment	(5,914)	(4,388)
Proceeds from sale of property, plant and equipment	200	126
Disposals of property, plant and equipment	(94)	(153)
Purchases of intangible assets	(238)	(198)
Other	(332)	(227)
Net cash (used in) provided by investing activities	(6,380)	(4,840)
Cash flows from financing activities		
Repayments of long-term borrowings	(514)	(1,320)
Repayments of lease obligations	(1,018)	(757)
Dividends paid to non-controlling interests	(404)	(409)
Payment for purchase of interest in subsidiary from non-controlling interests	(95)	-
Proceeds from sale and leaseback	-	234
Other	(15)	(197)
Net cash provided by (used in) financing activities	(2,048)	(2,450)
Net (decrease) increase in cash and cash equivalents	(386)	119
Cash and cash equivalents at the beginning of the period	5,140	7,278
Cash and cash equivalents at the end of the period	4,753	7,397

(5) Notes to Quarterly Condensed Consolidated Financial Statements

(Going Concern Assumption)

Not applicable.

(Changes in accounting policies)

The Group has applied IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") from the beginning of the fiscal year ending March 31, 2019. The new standard replaces IAS 18 *Revenue* and IAS 11 *Accounting for Construction Contracts*. IFRS 15 provides a comprehensive framework for determining the amount and timing of net sales from contracts with customers, including the presentation of financial statements.

The core principle of the Standard is that revenue is recognized as the amount of the consideration reflecting the value gained in exchange of goods or services that are transferred based on an agreement with a customer.

The objective of the Standard is to recognize revenue based on the five-step approach described below.

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

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

The Group mainly provides internet services, network services and condominium internet services. Net sales from the provision of these services is recognized when the Group performs its obligations based on the contracts with customers. The application of the Standard does not have any significant impact on the Group's results of operations and financial position.

(b) Method of transition

Upon application of the Standard, the Group has adopted the transitional provisions to recognize the cumulative effect of applying the standard as an adjustment to the beginning balance of retained earnings at the date of initial application. There was no impact on the quarterly condensed consolidated financial statements as a result of adopting such method.

(New Standard issued but not yet Adopted)

The Group has not applied IFRS 16 *Leases*, which was issued before the approval date of the quarterly condensed consolidated financial statements. The impact of adopting IFRS 16 *Leases* to the Group's operating leases is under assessment while it is expected to result in an increase in lease assets and financial liabilities.