

INTERNET RESEARCH INSTITUTE LTD

Interim Financial Reporting
(Unaudited)
30 June 2019

INTERNET RESEARCH INSTITUTE LTD
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		USD (in thousands)		
		30 June (Unaudited)	30 June (Unaudited)	31 December
		2018	2019	2018
	Note			
ASSET				
CURRENT ASSETS				
Cash and cash equivalents		7,731	10,973	11,282
Trade receivables	4	450	703	21
Contract assets		102	41	267
Related parties	7	170	21	50
Income tax receivables		16	-;-	511
Other current assets		1,595	748	567
TOTAL CURRENT ASSETS		10,064	12,486	12,698
NON-CURRENT ASSETS				
Right-of-use assets	2	-;-	7,009	-;-
Investments accounted for using the equity method	5	21,475	16,360	17,531
Other financial assets	3	808	1,225	1,087
Property, plant and equipment		642	667	724
Intangible assets		17	293	15
Deferred tax assets		51	61	147
Other non-current assets		-;-	9	-;-
TOTAL NON-CURRENT ASSETS		22,993	25,624	19,504
TOTAL ASSETS		33,057	38,110	32,202
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Trade payable		2,682	2,638	147
Accruals and other payables		1,571	1,999	1,500
Contract liabilities		255	807	2,947
Short-term lease liabilities	2	13	1,201	12
Related parties	7	36	329	6
Income taxes payables		415	746	-;-
TOTAL CURRENT LIABILITIES		4,972	7,720	4,612
NON-CURRENT LIABILITIES				
Long-term lease liabilities	2	2	5,708	65
Asset Retirement Obligations		203	237	209
TOTAL NON-CURRENT LIABILITIES		205	5,945	274
TOTAL LIABILITIES		5,177	13,665	4,886
EQUITY				
Share capital		-;-	-;-	-;-
Capital surplus		9,604	14,845	14,845
Accumulated other comprehensive income		178	269	352
Exchange differences on translation from functional currency to presentation currency		1,286	1,991	1,495
Retained earnings	2	16,812	7,340	10,624
TOTAL EQUITY		27,880	24,445	27,316
TOTAL LIABILITIES AND EQUITY		33,057	38,110	32,202

INTERNET RESEARCH INSTITUTE LTD
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Note	USD (in thousands)		
		Six month period ended 30 June (Unaudited)		Year ended 31 December
		2018	2019	2018
Revenue	4	8,568	9,402	10,455
Operating costs and expenses:				
Cost of sales	2	(2,826)	(3,333)	(3,455)
Selling, general and administrative	2	(5,526)	(6,411)	(9,771)
Research and Development expenses		(34)	(900)	(33)
Other incomes	2	6	183	18
Other expenses		(6)	-;-	(2)
Total operating costs and expenses		<u>(8,386)</u>	<u>(10,461)</u>	<u>(13,243)</u>
Operating profit		<u>182</u>	<u>(1,059)</u>	<u>(2,788)</u>
Other expenses (Impairment)			(16)	(955)
Finance income		-;-	-;-	90
Finance expense	2	-;-	(58)	(8)
Finance income (expense), net		-;-	(58)	82
Share of profit(loss) of investments accounted for using the equity method	5	3,003	40	993
Gain on change in share of investments accounted for using equity method	5	41	1,423	112
Profit (Loss) before income taxes		<u>3,226</u>	<u>330</u>	<u>(2,556)</u>
Income tax expense		<u>(727)</u>	<u>(879)</u>	<u>(259)</u>
Profit (Loss) for the year		<u>2,499</u>	<u>(549)</u>	<u>(2,815)</u>
Profit (Loss) for the period attributable to:				
Owners of the parent		2,499	(549)	(2,815)
Profit (Loss) for the year				
Other comprehensive income, net of tax:				
<i>Items that may be reclassified to profit or loss</i>				
Share of other comprehensive income of investments accounted for using equity method	5	(17)	(4)	34
Change in fair value of available-for-sale financial assets		-;-	-;-	-;-
Differences from translation of financial statements from functional currency to presentation currency			504	657
<i>Items that will not be classified to profit or loss</i>				
Differences from translation of financial statements from functional currency to presentation currency		435	(8)	(13)
Change in fair value of available-for-sale financial assets		18	2	5
Share of other comprehensive income (loss) of investments accounted for using equity method	5	258	(81)	394
Total other comprehensive income, net of tax		<u>694</u>	<u>413</u>	<u>1,077</u>
Comprehensive income for the year		<u>3,193</u>	<u>(136)</u>	<u>(1,738)</u>
Earnings per share attributable to owners of the parent				
Basic (USD)		0.072	(0.012)	(0.071)
Diluted (USD)		0.072	(0.012)	(0.071)

INTERNET RESEARCH INSTITUTE LTD
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGE IN EQUITY

USD (in thousands)
 Equity attributable to owners of the parent

Note	Share capital	Capital surplus	Retained earnings	Accumulated other comprehensive income (loss)	Exchange differences on translation from functional currency to presentation currency	Total equity
Balance as of 31 December 2017	-;-	9,604	13,752	373	852	24,581
Adjustment on adoption of new accounting standards	-;-	-;-	561	(454)	(1)	106
Balance as of 1 January 2018 (reclassified)	-;-	9,604	14,313	(81)	851	24,687
Profit for the period	-;-	-;-	2,499	-;-	-;-	2,499
Other comprehensive loss, net of tax	-;-	-;-	-;-	259	435	694
Total comprehensive income (loss) for the period	-;-	-;-	2,499	259	435	3,193
Balance as of 30 June 2018(Unaudited)	-;-	9,604	16,812	178	1,286	27,880

INTERNET RESEARCH INSTITUTE LTD
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGE IN EQUITY

USD (in thousands)

Equity attributable to owners of the parent

	Note	Share capital	Capital surplus	Retained earnings	Accumulated other comprehensive income (loss)	Exchange differences on translation from functional currency to presentation currency	Total equity
Balance as of 1 January 2019		-;-	14,845	10,624	352	1,495	27,316
Adjustment on adoption of new accounting standards	2	-;-	-;-	(2,735)	-;-	-;-	(2,735)
Balance as of 1 January 2019 (reclassified)		-;-	14,845	7,889	352	1,495	24,581
Profit for the period		-;-	-;-	(549)	-;-	-;-	(549)
Other comprehensive loss, net of tax		-;-	-;-	-;-	(83)	496	413
Total comprehensive income (loss) for the period		-;-	-;-	(549)	(83)	496	(136)
Balance as of 30 June,2019(Unaudited)		-;-	14,845	7,340	269	1,991	24,445

INTERNET RESEARCH INSTITUTE LTD
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGE IN EQUITY

		USD (in thousands)					
		Equity attributable to owners of the parent					
	Note	Share capital	Capital surplus	Retained earnings	Accumulated other comprehensive income (loss)	Exchange differences on translation from functional currency to presentation currency	Total equity
Balance as of 31 December,2017		-;-	9,604	13,752	373	852	24,581
Adjustment on adoption of new accounting standards		-;-	-;-	561	(454)	(1)	106
Balance as of 1 January,2018 (reclassified)		-;-	9,604	14,313	(81)	851	24,687
Profit for the year		-;-	-;-	(2,815)	-;-	-;-	(2,815)
Other comprehensive loss, net of tax		-;-	-;-	-;-	433	644	1,077
Total comprehensive income (loss) for the period		-;-	-;-	(2,815)	433	644	(1,738)
Shares IPO, net of IPO expenses		-;-	4,367	-;-	-;-	-;-	4,367
Transfer to capital from retained earnings		-;-	874	(874)	-;-	-;-	-;-
Total transaction with owners and other		-;-	5,241	(874)	-;-	-;-	4,367
Balance as of 31 December,2018		-;-	14,845	10,624	352	1,495	27,316

INTERNET RESEARCH INSTITUTE LTD
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

		USD (in thousands)		
		Six months ended 30 June (Unaudited)		31 December
Note		2018	2019	2018
Cash flows from operating activities:				
	Profit before income taxes	3,226	330	(2,556)
	Depreciation and amortization	51	577	117
	Share of profit of investments accounted for using equity method	5 (3,003)	(40)	(993)
	Gain on change in share of investments accounted for using the equity method	51 (41)	(1,423)	(112)
	Finance income and finance expense, net	0	58	1
	IPO related costs with regards to issuance cost	169	-;	-;
Change in assets and liabilities				
	Trade receivables	(497)	(629)	412
	Contract assets	4 99	226	(81)
	Trade payable	2,546	2,417	(38)
	Accruals and other payables	(583)	-;	(283)
	Contract liabilities	4 (2,532)	(2,153)	184
	Others	(9)	74	(372)
	Dividends received	103	102	2,540
	Interest received	0	0	0
	Interest paid	(0)	(58)	(1)
	Income taxes received (paid)	142	313	(352)
	Net cash provided by operating activities	(329)	(206)	(1,534)
Cash flows from investing activities:				
	Acquisitions of property, plant and equipment	(429)	(2)	(486)
	Acquisitions of intangible assets	(7)	(80)	(7)
	Acquisition of Investment Securities	-;	(9)	(282)
	Acquisition of subsidiary, net of cash acquired	8 -;	142	-;
	Loans to related parties	7 -;	(74)	-;
	Acquisition of other financial assets	(1)	(1)	(2)
	Proceeds from collection of guarantee deposits	97	-;	96
	Net cash used in investing activities	(340)	(24)	(681)
Cash flows from financing activities:				
	Payment for IPO related cost	(741)	-;	-;
	Proceeds from issuance of common shares	-;	-;	4,367
	Repayments of short-term financing liabilities	-;	228	-;
	Borrowings from related parties	7 -;	6	-;
	Repayments of obligations under finance leases	2 (6)	(521)	(46)
	Net cash provided by financing activities	(747)	(287)	4,321
	Net change in cash and cash equivalents	(1,416)	(517)	2,106
	Cash and cash equivalents at beginning of year	8,949	11,282	8,949
	Capital fund from translation differences	198	208	227
	Cash and cash equivalents at end of year	7,731	10,973	11,282

NOTE 1 – GENERAL INFORMATION, REORGANIZATION AND BASIS OF PRESENTATION

1.1 General Information

Internet Research Institute Ltd (hereinafter - the Company) was incorporated and registered in Israel as a private company on August 8, 2017. The Company listed shares of its common stock on the Tel-Aviv Stock Exchange on August 9, 2018. The Company wholly holds in Internet Research Institute, Inc. (hereinafter – IRI Japan), a private company that was incorporated in Japan on December 9, 1996. IRI Japan registered address is in Tokyo, Japan.

The Company's operations, via IRI Japan and its subsidiaries (hereinafter – the Group), are focused on Internet technologies (and, in particular, IoT), cyber security and AI (see the definitions of these terms above), and include consultation, research, investments, and production of conferences and events in these fields.

Upon its incorporation in Israel, the Company was wholly owned by Dr. Hiroshi Fujiwara. After the Company's incorporation, Dr. Fujiwara set up a company that was wholly owned by him, which was incorporated under Japanese law (the "New IRI Japan") the entire issued capital of which was transferred by Dr. Fujiwara to the Company immediately following its incorporation. Just prior to the date of the incorporation, a merger transaction (under Japanese law, hereinafter: the "Merger") was effected, in which the following actions were performed at the same time: (i) Dr. Fujiwara transferred 34,786 shares of the Company (out of the 34,787 shares existing in the issued capital of the Company) to the New IRI Japan; (ii) the operations of (the original) IRI Japan were merged into the New IRI Japan; and (iii) the New IRI Japan transferred the shares of the Company to the shareholders of (the original) IRI Japan at a ratio of 1:2 (i.e., two shares of the Company for each share of the original IRI Japan). For the purpose of the merger, 756 ordinary A shares of (the original) IRI Japan were converted for ordinary shares of (the original) IRI Japan, at a ratio of 1:1.

As a result of the above, after the completion of the above mentioned merger, the shareholders of the Company were the persons who were the shareholders of (the original) IRI Japan.

Pursuant to the law that is applicable in Japan, on the date of the merger, the New IRI Japan, as the recipient corporation in the merger, accepted all of the assets and liabilities of the original IRI Japan as such had been on the date of the merger. Therefore, in this financial statements, the term "IRI Japan" shall refer to the original IRI Japan and to the New IRI Japan, without distinction.

After completing the foregoing merger, the Company allotted bonus shares to its shareholders, so that an additional 999 shares were allotted for each share of the Company.

All references in the financial statements to the number of shares outstanding of the Company have been adjusted to reflect the effect of the triangle merger and allotted bonus shares.

1.2 Terms

In this financial statements:

The Company, IRI Israel – Internet Research Institute Ltd.

The Group – the Company and its subsidiaries and its affiliates.

IRI Japan – Internet Research Institute, Inc., a private company that is wholly owned by the Company, and that was incorporated in Japan.

NOM – NANO OPT Media, Inc., a private company that is wholly owned by IRI Japan, which was incorporated in Japan.

IOT – IoT square, Inc., a private company that is wholly owned by IRI Japan, which was incorporated in Japan.

FAEV – Fintech A-Eye Ventures, Inc., a private company that is wholly owned by IRI Japan, which was incorporated in Japan.

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BBT – BroadBand Tower, Inc., a public company incorporated in Japan, the shares of which are listed for trading on the Tokyo Stock Exchange, in which IRI Japan holds 19.7% of the issued and paid up share capital.

MIC – Mobile Internet Capital, Inc., a private company which was incorporated in Japan. Which IRI Japan holds 30% of the issued and paid up share capital.

1.3 Basis of Preparation

The unaudited interim condensed consolidated financial statements of the Group (“the interim financial statements”) have been prepared in accordance with IAS 34 Interim Financial Reporting for the purpose of preparation for the unaudited interim condensed consolidated financial statements of IRI Israel. The interim financial statements were included in the unaudited interim condensed consolidated financial statements of the Group which were approved by Hiroshi Fujiwara, Chairman and Chief executive officer, Mirei Kuroda, and external Director, Elchanan Harel on 28 August 2019.

The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the Group’s annual consolidated financial statements as of 31 December 2018.

The preparation of the unaudited interim condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent amounts at the date of the unaudited interim condensed consolidated financial statements as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The significant estimates and assumptions are reviewed by management on a regular basis. The effects of a change in estimates and assumptions are recognized in the period of the change or in the period of the change and future periods.

Also note that all comparative financial information for the six month ended 30 June 2018 presented in this financial statements, which was prepared at IRI Israel’s consolidated basis, whereas all current financial information for the six month ended 30 June 2018 was prepared at IRI Japan’s sub consolidated basis.

1.4 Liquidity of the Company:

1. In the six months period ended 30 June 2019, the Company had USD 206 thousand negative cash flows from operating activities (USD 329 thousand as of 30 June 2018, USD 1,534 thousand as 31 December 2018, cash flows from operating activities are also negative in those periods).

The cash flow in the six months period ended 30 June 2019 is inter alia improved as a result of implementation of a new financial standard (resulting deduction of rental payments included in financing activities commencing 1 January 2019).

2. The Company's cash and cash equivalents as of 30 June 2019 amounts USD 10,973 thousands.
3. According to the Company's management assessment, the continuance of IoT Square, Inc. ("IoT") operation will cause the Company a negative cash flow. Therefore, the Management examined an efficiency plan.
4. See in note 10 the efficiency plan that has approved by the Company's Board of Directors on 28 August 2019

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied throughout the year ended 31 December 2018, unless otherwise stated.

The consolidated financial statements of the Group (“the financial statements”) have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standard Board (the “IASB”). The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Statements are identical to those disclosed in Note 4 to the annual consolidated financial statements for the year ended 31 December 2018.

The adoption of new and revised IFRS issued by IASB that are mandatorily effective for an accounting period that begins on or after 1 January 2019 had no impact on the Group’s unaudited interim condensed consolidated financial statements as of and for the six-month periods ended 30 June 2018 and 2019 and annual consolidated financial statements as of 31 December 2018, except for the following standards.

The company included Separate Financial Information according to Israel Securities Authority regulations, section 38D (Periodic and Immediate Reports), 1970

2.1 IFRS16 Leases

The Group has adopted IFRS 16 Leases from the fiscal year beginning 1 January 2019. The Group has applied the modified retrospective method permitted by IFRS 16 and recognized the cumulative amount of the impact as of 1 January 2019 upon adoption of the standard. As a result, the Group has not restated the amounts in the comparative reporting period prior to adoption of IFRS 16.

IFRS 16 sets out the principal for the recognition, measurement, presentation and disclosure of lease contracts for lessees and lessors. Under IFRS 16, lessees no longer make a distinction between finance and operating leases as required under IAS 17, and apply a single accounting model. At the commencement date of a lease, lessees recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use assets). Subsequently, lessees are required to recognize separately the interest expense on the lease liability and the depreciation expense on the right-of-use assets. The right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life of the assets or the lease term. Lessors accounting under IFRS 16 remains substantially unchanged from IAS 17.

Upon the adoption of IFRS 16, the Group recognized lease liabilities for its leases previously classified as operating lease under IAS 17. The lease liabilities were measured at the present value of the remaining lease payments, discounted at the incremental borrowing rate as of 1 January 2019. The weighted average incremental borrowing rate used for the lease liabilities as of 1 January 2019 was 1.64%.

The Group applied the following practical expedients permitted by IFRS 16 when applying IFRS 16:

- Accounted operating leases with less than 12 months of of lease term remaining as of 1 January, 2019 for short-term leases.
- Used hindsight when determining the lease term where the contract contains options to extend or terminate the lease.
- By class of underlying asset, not to separate non-lease components from lease components, and instead accounts for each lease component and any associated non-lease components as a single lease component.

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The Group elected not to apply IFRS 16 to the agreements that were not identified as containing a lease component applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease*.

	USD(in thousands)
Commitments for operating lease as of 31 December 2018 as disclosed in the Group's consolidated financial statements	479
Discounted using the group's incremental borrowing rate of 1.64%	(7)
Add: finance lease liabilities recognized as at 31 December 2018	77
(Less): short term leases and low value leases recognized on straight-line basis as expense	(8)
Add: adjustments as a result of different treatment of extension and termination options	5,691
Lease liabilities recognized at 1 January 2019	6,232
Current lease liabilities	849
Non-current lease liabilities	5,383

As a result of above, the Group recognized 6,230 thousand USD and 6,155 thousand USD for the right-of-use assets and lease liabilities, respectively, in the unaudited interim condensed consolidated financial position as of 1 January 2019. As at 1 January and 30 June 2019, the Group's right-of-use assets consist almost entirely of Buildings. The Group's right-of-use assets and the lease liabilities comprise of two segments as Information technology segment and Information service business segment, respectively, and the ending balances of right-of-use assets and lease liabilities as of 30 June 2019 are 3,982 thousand USD and 3,908 thousand USD associated with Information technology segment, and 3,027 thousand USD and 3,001 thousand USD associated with Information service business segment, respectively.

In addition, BBT and Mobile Internet Capital, Inc. ("MIC") as affiliates of the Group have also adopted IFRS 16 from the fiscal year beginning 1 January 2019. As a result of adoption of IFRS 16 by each affiliate in accordance with the Group's accounting policies discussed above, the following impacts were identified.

1. BBT

Please refer to Note 11.

2. MIC

MIC recognized 709 thousand USD and 741 thousand USD for the right-of-use assets and lease liabilities, respectively at their financial statements as of 1 January 2019

As a result of the adjustments in each affiliate, related cumulative loss profit investments accounted for using equity method and its tax effects of 2,735 thousand USD was adjusted to retained earnings through applying the equity method by the Group.

Due to the adoption of IFRS 16, the rent expense which included operating lease expenses decreased by 522 thousand USD for the six month period ended 30 June 2019. The depreciation and amortization expenses which included the depreciation expenses of right-of-use assets, and finance costs which included interest expenses for lease liabilities increased by 510 thousand USD and 53 thousand USD, respectively for the six month period ended 30 June 2019.

In addition, cash out flow by operating activities decreased by 515 thousand USD and cash out flow by financing activities increased by 515 thousand USD compared to those under IAS 17, due to cash payments for the principal of the lease liabilities being classified to the cash flows from financial activities.

The accounting policies applied by the Group in accordance with the IFRS 16 as of 1 January 2019 are as follows:

The Group, as a lessee, mainly leases properties. Lease contracts are normally entered into the fixed term from 2 years to 8 years.

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Leases are recognized as right-of-use assets and the corresponding liabilities when the lease assets become available for use by the Group. Each lease payment is apportioned between repayments of the lease liability and finance costs. The finance costs are accounted for as expenses over the lease term and calculated based on constant periodic rate of interest on the remaining balance of the lease liability. The right-of-use assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

The assets and liabilities arising from leases are measured at the present value of the lease at the commencement date. The lease liability includes the net present value of the following lease payments:

- fixed payments less any lease incentives
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease

Lease payments are determined using the Group's incremental borrowing rate, since the implicit rate in the lease can not be readily determined.

The right-of-use assets is measured at cost shall comprise:

- the amount of the initial measurement of the lease liability
- any lease payments made at or before the commencement date, less any lease incentives received
- any initial direct cost
- cost of restoring the underlying asset to the original condition

The lease payments associated with short-term lease and leases of low-value assets are recognized as expenses on a straight-line basis.

A short-term lease is a lease that, at the commencement date, has a lease term of 12 months or less. A lease of low-value asset, for example, comprises low value assets such as office furniture and fixture.

The Group's property leases include extension options and termination options.

Extension option shall be included in the lease term only if the lessee is reasonably certain to exercise that option.

2.2 Government grants

IoT as a new subsidiary of the Company received USD 66 thousand of government grants and it was recorded as "other incomes" in unaudited interim condensed consolidated statements of profit or loss for the six-month period ended 30 June 2019. As of 30 June 2019, there are no unfulfilled conditions or other contingencies attaching to this grants. IoT did not benefit directly from any other forms of government assistance.

NOTE 3 – FAIR VALUE MEASUREMENTS

Fair value hierarchy

The Group referred to the levels of the fair value hierarchy for financial instruments measured at fair value on the interim condensed consolidated financial statements based on the following inputs:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs are quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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– Level 3 inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable, which reflect the reporting entity’s own assumptions that market participants would use in establishing a price.

Transfers between levels of the fair value hierarchy are recognized as if they have occurred at the beginning of the reporting period.

(1) Fair value measurements by fair value hierarchy

Assets measured at fair values on a recurring basis in the Interim Consolidated Statement of Financial Position as of 30 June 2019, 30 June 2018 and 31 December 2018 are as follows:

	Level 1	Level 2	Level 3	Total
	USD (in thousands)	USD (in thousands)	USD (in thousands)	USD (in thousands)
As at 30 June 2019				
(Unaudited)				
Assets				
Financial assets at Fair value through profit and loss –equity securities			89	89
Financial assets at FVOCI	-;-	-;-	246	246
Total			335	335
As at 30 June 2018				
(Unaudited)				
Assets				
Financial assets at FVOCI	-;-	-;-	33	33
As at 31 December 2018				
Assets				
Financial assets at Fair value through profit and loss –equity securities			80	80
Financial assets at FVOCI	-;-	-;-	224	224
			304	304

(2) Reconciliations from the opening balance to the closing balance of financial instruments categorized within Level 3 are as follows:

	Financial assets at level 3
	USD (in thousands)
The six month period ended 30 June, 2019 (unaudited)	
Balance at 31 December 2018	304
Purchases	40
Fair value gain/(loss) on valuation	(35)
Translation differences	26
Balance at 30 June 2019 (unaudited)	335

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The six month period ended 30 June 2018 (unaudited)

Balance at 31 December 2017	15
Fair value gain/(loss) on valuation	18
Translation differences	(*)-;
Balance at 30 June 2018 (unaudited)	<u>33</u>

The year ended 31, December, 2018 (audited)

Balance at 31 December 2017	15
Purchases (**)	282
Fair value gain/(loss) on valuation	(9)
Translation differences	16
Balance at 31 December 2018	<u>304</u>

(*) less than thousand US dollars.

(**) The Company purchased the preferred BB shares issued by Beta-O2 Technologises Ltd., a company incorporated in Israel, which deals in the field of biomedicine. And the investments is categorized as financial assets at FVOCI.

As at 30 June 2019, 30 June 2018 and 31 December 2018 financial assets at FVOCI comprise of equity instruments.

NOTE 4– Revenue from contracts with customers

4.1 Disaggregation of revenue from contracts with customers

Details regarding disaggregated revenue included at segments reporting note (see Note 9).

4.2 Assets and liabilities related to contracts with customers

The Group has recognized the following revenue-related contract assets and liabilities.

	USD (in thousands)		
	31 December 2018	30 June 2018	30 June 2019
Contract assets ⁽¹⁾	<u>267</u>	<u>102</u>	<u>41</u>
Contract liabilities ⁽²⁾	<u>2,947</u>	<u>255</u>	<u>807</u>

(1) Contract assets consist of “Costs to fulfil a contract” which is attributed to the host or the customer’s event in information services business.

(2) Contract liabilities consist of “Unsatisfied performance obligations” which is related to information services business. The obligations will be satisfied within a year.

The full amount of USD 2,947 thousand recognized in contract liabilities at the beginning of the period has been recognized as revenue for the six months ended 30 June 2019.

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NOTE 5– INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

1. General Information

Set out below are the associates of the Group as at 30 June 2019, 30 June 2018 and 31 December 2018. The entities listed below have share capital consisting solely of ordinary shares, which are held directly by the Group. The country of incorporation or registration is also their principal place of business, and the proportion of ownership interest is the same as the proportion of voting rights held.

<u>Name of Company</u>	<u>Main Business</u>	<u>% of ownership interest</u>			Nature of relationship	Place of business
		30 June (Unaudited) 2018	30 June (Unaudited) 2019	31 December 2018		
BroadBand Tower, Inc.	• Computer platform • AI solutions business • Media solutions business	22%	19.7%	22%	Associate (1)	Tokyo Japan
Mobile Internet Capital, Inc.	Investment management	30%	30%	30%	Associate (2)	Tokyo Japan

Carrying amount of each investment as at 30 June 2018, 30 June 2017 and 31 December 2018 and dividend received from each affiliate are as follows.

<u>Name of Company</u>	<u>Carrying amount</u>			<u>Dividend received</u>		
	30 June (Unaudited) 2018	30 June (Unaudited) 2019	31 December 2018	Six months ended 30 June (Unaudited)		31 December
	2018	2019	2018	2018	2019	2018
	USD (in thousands)					
BroadBand Tower, Inc.	15,949	14,072	15,230	103	102	203
Mobile Internet Capital, Inc.	5,526	2,288	2,301	-;	-;	2,337
	21,475	16,360	17,531			2,540

Quoted fair value of BroadBand Tower, Inc. as at 30 June 2019, 30 June 2018 and 31 December 2018, are USD 25,452 thousand, USD 17,140 thousand and USD 28,822 thousand, respectively.

- (1) BroadBand Tower, Inc. is a trailblazer in the specialty Internet data center business, as a service evolved from ICT for modern businesses, through its advanced technological capabilities, experienced staff, and high-grade facilities and services. BroadBand Tower, Inc. has subsidiaries and affiliates, and they provide planning, construction, and providing dedicated platform services (video, voice, data delivery) and support of VNO setup/operation services to cable television operators.

As shown in the table above, during the six-month period ended 30 June 2019, the Company's ownership interest ratio has decreased due to the following transactions.

- a) Acquisition of TSS LINK, Inc by BBT through share exchange
As discussed in Note. 11, BBT acquired TSS LINK, Inc through share exchange on 31 January 2019 and it led to 0.3% of decrease in the Company's ownership interest ratio.
- b) Issuance of common shares and 10th Series of Stock Acquisition Rights
On 22 April 2019, BBT issued its common shares and 10th series of stock acquisition rights through third party allotment to Macquarie Bank Limited (the "Allottee"), pursuant to a resolution of a

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meeting of the Board of Directors on 5 April 2019. From 23 April to 30 June 2019, the Allottee exercised approximately 59% of the rights owned by them and BBT issued common shares to the Allottee. Those transactions led to 1.9% of decrease in the Company's ownership interest ratio. If the Allottee exercise the remain rights, the Company's ownership interest ratio will decrease to 18.8%.

As of 30 June 2019, the Company holds 19.7% of the voting rights, two directors of the Company are also designated as directors of this entity and they participate in all significant financial and operating decisions of the entity. The Group has therefore determined that it has significant influence over this entity. BBT's common stock is listed and traded in the Tokyo Stock Exchange, and above BBT's quoted fair value is categorized as level 1 under IFRS 13, which is quoted prices in active markets.

- (2) Mobile Internet Capital, Inc. is a venture capital investing in ICT related venture companies. The Company holds 30% of the voting rights, therefore the Company has determined that it has significant influence over this entity.
- (3) Impact from the change in ownership interest at BBT recorded as a gain on change in share of investments accounted for using the equity method in statement of income, due to the following contributions: (a) Gain on sale on owner dilution in the holding percentage of BBT; (b) Reclassification of a portion of BBT's accumulated OCI following such sale or dilution, and ; (c) The company's share in equity movement in BBT not resulting from its comprehensive income.

2. The summary financial statement of BroadBand Tower, Inc. adjusted to IFRS is as follows:

	USD (in thousands)		
	Six months ended 30 June (Unaudited)		31 December
	2018	2019	2018
Current assets	91,684	102,927	93,031
Non-current assets	85,734	295,464	125,281
Total assets	177,418	398,385	218,312
Current liabilities	*40,700	64,797	*39,495
Non-current liabilities	*43,498	230,434	*81,153
Total liabilities	84,198	295,231	120,648
Total Net assets	93,220	103,154	97,664
Group's share in %	22%	19.7%	22%
Carrying amount	15,949	14,072	15,230

*Re-Stated

	USD (In thousands)		
	Six months ended 30 June (Unaudited)		31 December
	2018	2019	2018
Revenue	54,513	64,741	110,313
Expense	57,632	63,437	115,198
Profit (loss) from continuing operations	(3,119)	1,304	(4,885)
Profit from discontinued operations *	-;	-;	(3,400)
Profit (Loss)	(3,119)	1,304	(8,285)

Profit (Loss)
attributable to:

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Owners of the parent of the company	(2,981)	434	(7,587)
Non-controlling interests	(138)	870	(698)
Other comprehensive income (loss)	239	366	1,146
Total comprehensive income (loss)	(2,880)	1,670	(7,139)
<hr/>			
Total comprehensive income (loss) attributable to:			
Owners of the parent of the company	(2,733)	(22)	(6,384)
Non-controlling interests	(148)	1,692	(755)

* Discontinued operations for the year ended 31 December 2018 is relating to the sale of IoT Square, Inc. as a wholly owned subsidiary and lost its control on 4 January 2019. Further details is discussed in Note 8.

Individually immaterial associates*

	USD (in thousands)		
	Six months ended 30 June (Unaudited)		31 December
	2018	2019	2018
Aggregate carrying amount of individually immaterial associates	18,421	7,627	7,670
The investments in Mobile Internet Capital Inc.	5,526	2,288	2,301
Profit from continuing operations	12,199	(103)	8,870
Other comprehensive income	1,044	(87)	1,292
Total comprehensive income	13,243	(190)	10,162

(*) As shown in the table above, during the six month period ended 30 June 2018 the amount of the investments in MIC has significantly increased compared to the previous period. It caused by the fact that MIC gained an outstanding performance in the period by three IPOs from their operating funds, one of which investments is a smash success by HEROZ, Inc. After their IPO in April, the MIC's fund sold off all their holdings in HEROZ through the stock exchange. The total gain on sale of securities that MIC recognized amounts to 18 million USD before tax effect, while no success fee was paid in the previous financial year. As a result, IRI assumed profit of investments accounted for using the equity method from MIC in its H1 financial statements as approximately USD 4M. In the second half of the year ended 31 December 2018, MIC paid 2,337 thousand USD of dividend to the Company.

MIC is a fund management company described above, and it will not continuously secure the good performance like MIC's the result in this period. In fact, the success fee still gross amount before any payment of performance incentives to fund managers, dividend distribution, and so on. Therefore, the Group determined that the reporting good results is a temporary, and accordingly MIC is still determined as individually immaterial associate.

3. Share of profit and of other comprehensive income (loss) of investments accounted for using the equity method

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(a) Share of profit of investments accounted for using equity method

	Six months ended 30 June (Unaudited)		31 December
	2018	2019	2018
USD (in thousands)			
Profit (loss) attributable to owners of BBT	(2,981)	434	(7,587)
Group's share in BBT %	22%	19.7%	22%
Share of profit (loss) of BBT	(656)	72	(1,669)
Profit attributable to owners of MIC	12,199	(103)	8,870
Group's share in MIC %	30%	30%	30%
Share of profit (loss) of MIC	3,659	(31)	2,661
Share of profit of investments accounted for using the equity method	3,003	40	992

(b) Share of other comprehensive income (loss) of investments accounted for using equity method

	Six months ended 30 June (Unaudited)		31 December
	2018	2019	2018
USD (in thousands)			
Other comprehensive income (loss) attributable to owners of BBT	254	(539)	1,146
Group's share in BBT %	22%	19.7%	22%
Share of other comprehensive income (loss) of BBT, net of tax*	56	(68)	175
Other comprehensive income (loss) attributable to owners of MIC	1,044	(87)	1,292
Group's share in MIC %	30%	30%	30%
Share of Other comprehensive income (loss) of MIC, net of tax*	313	(17)	253
Share of other comprehensive income (loss) of investments accounted for using the equity method	369	(85)	428

- Including deduction of deferred income tax allocated to other comprehensive income due to investments in affiliates.

NOTE 6 – SEASONAL OPERATIONS

Due to the seasonal nature of the NOM segment, higher revenues and operating profits are usually expected in the three month period ended 30 June than other quarterly periods. This is mainly due to the fact that the Interop Tokyo, Email Security Expo & Conference as a biggest event operated by NANO OPT Media Inc. which is held in June every year. In the fiscal year ended 31 December 2018, 48% of revenues in the three month period ended 30 June was recorded in the NOM segment.

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NOTE 7 – RELATED PARTY TRANSACTIONS

For the purposes of this Interim Financial Information, parties are considered to be related to the Group if the party has the ability, directly or indirectly, to exercise significant influence over the Group in making financial and operating decisions. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals. Parties are also considered to be related if they are subject to common control.

The directors are of the view that the following individuals and companies were related parties that had transactions or balances with the Group for the six-month periods ended 30 June 2018 and 2019, and the year ended 31 December 2018.

Name of related parties	Relationship with the Company/Group
Hiroshi Fujiwara	Director of the Company, Chairman of the board of directors and CEO, and Representative director of IRI Japan, President and CEO
Mieko Nakagawa	Director of the Company, and Director of IRI Japan, COO
Mirei Kuroda	CFO of the Group
Harel Elchanan	Director of the Company
Internet Research Institute, Inc.	Subsidiary
NANO OPT Media, Inc.	Subsidiary
IoT Square, Inc.	Subsidiary
BroadBand Tower, Inc.	Affiliate
Japan Cable Cast Inc.	Subsidiary of affiliate
Unimo, Inc.	Company owned by director
Remote Sensing Technology Center of Japan	Company owned by director
Internet Association Japan	Company owned by director
Astro Aerospace	Company owned by director

(a) BALANCES classified as related parties

	USD (in thousands)		
	30 June (Unaudited) 2018	2019	31 December 2018
Current assets			
Booked in the company and IRI Japan:			
Trade Receivable to a company own by director			60
-Trade Receivable to Internet Association Japan	50	-;-	
-Prepaid expense to Internet Association Japan	(*)-;-	0	0
-Trade Receivable to Unimo, Inc.	10	10	0
-Allowance for Doubtful accounts to Unimo, Inc.	(10)	(10)	(10)
Booked in NANO OPT Media, Inc.:			
-Other receivable to Unimo, Inc.	21	21	21
-Allowance for Doubtful accounts to Unimo, Inc.	(21)	(21)	(21)
-Prepaid expense to Astro-Aerospace Ltd.	120	-;-	-;-
-Trade Receivable to Japan CableCast, Inc.		2	
Booked in IoT Square, Inc.:			
-Trade Receivable to Broad band Tower, Inc.	-;-	8	-;-
-Prepaid expense to Broad band Tower, Inc.	-;-	11	-;-
Total	170	21	50

Non-current assets

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Booked in the company:

Total	-;-	-;-	-;-
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Current liabilities

Booked in the company and IRI Japan:

-Account payable to BroadBand Tower, Inc.	1	1	3
-Other payable for Hiroshi Fujiwara	35	15	-;-
-Other payable for key role personals		63	
-Advance payment from BroadBand Tower, Inc.	-;-	-;-	-;-

Booked in NANO OPT Media, Inc.:

-Account payable to BroadBand Tower, Inc.	-;-	1	3
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Booked in IoT Square, Inc.:

-Trade Payable to Broad band Tower, Inc.	-;-	15	-;-
-Account payable for Broad band Tower, Inc.	-;-	1	-;-
-Short-term borrowings from Directors of the IoT Square, Inc.	-;-	233	-;-
Total	36	329	6

(*) less than thousand USD

All of the above transactions with related parties were conducted in the ordinary course of the business of the Group based on the terms mutually agreed between the relevant parties.

(b) Transactions with related parties

	USD (in thousands)		
	30 June (Unaudited)		31 December
	2018	2019	2018
Booked in the company and IRI Japan:			
Transaction with Other Related Parties			
– Outsourcing cost to BroadBand Tower, Inc.	(6)	(5)	(14)
– Purchase of common shares of IoT Square, Inc. from BroadBand Tower, Inc.	-;-	70	-;-
– Sales to IoT Square, Inc.	14	-;-	13
– Sales to Internet Association Japan	46	0	136
– Revisions of contract amount in relation to sales transactions with Internet Association Japan	-;-	(49)	-;-
– Payment of membership fee to Internet Association Japan	(1)	(2)	(1)
Booked in NANO OPT Media, Inc.			
Transaction with Other Related Parties			
– Sales to BroadBand Tower, Inc.	10	11	-;-
– Sales to Japan CableCast, Inc.		1	
– Consulting fee to Astro Aerospace	61	-;-	(181)
– Outsourcing cost to BroadBand Tower, Inc.	-;-	-;-	(2)
Booked in IoT Square, Inc.:			
Transaction with Other Related Parties	-;-	-;-	-;-
– Sales to BroadBand Tower, Inc.	-;-	107	-;-
– Short-term borrowings from Directors of the IoT Square, Inc.	-;-	228	-;-
– Sales to Remote Sensing Technology Center of Japan	-;-	9	-;-
– Outsourcing cost to BroadBand Tower, Inc.	-;-	(60)	-;-
Total	124	310	(49)

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(c) Key management compensation

As discussed in the above, until the change in reporting entity occurred on 20 November 2017, key management personal includes 5 directors and 1 corporate auditors of IRI Japan. After the date, key management has been changed to 7 directors and 1 CFO of the Company. The compensation paid or payable to key management for employee services is shown below:

	USD (in thousand)		
	30-June (Unaudited)		31 December
	2018	2019	2018
Executive compensation	85	153	323
Share-based payment	-;-	-;-	-;-
Total	85	153	323

NOTE 8 – BUSINESS COMBINATION

Acquisition of IoT Square, Inc.

On 20 December 2018, the Company's board of director meeting resolved to acquire of IoT Square, Inc. ("IoT"), accompany incorporated in Japan and as a wholly subsidiary of BBT.

Based on the resolution, the Company entered into the share purchase agreement with BBT on 21 December 2018. According to the terms and conditions of the agreement, the acquisition was completed on 4 January 2019 and it resulted that IoT becomes a wholly subsidiary of the Company.

IoT is an R&D company which operates in a number of fields of operations, the principal ones being the development of systems for the management and sale of digital tickets to events, management and operation services to solar power plants, the development of solutions and consultation services in the field of date security, and the design and production of films and production services.

Assets acquired and liabilities assumed

The identifiable assets and liabilities of IoT, which are measured at fair value as of the date of acquisition except for limited exceptions in accordance with IFRS, were as follows:

	<i>(USD in thousands)</i> Fair value recognized on acquisition
Assets	
Cash and cash equivalents	213
Trade receivables	29
Related parties	10
Other current assets	83
Other financial assets	105
Property and equipment	53
Right-of-use assets	537
Intangible assets	4
Other non-current assets	10
Total	1,044
Liabilities	
Accruals and other payables	(271)
Related parties	(59)
Other liabilities	(15)
Lease liabilities	(516)
Asset Retirement Obligations	(21)

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Total	(882)
Total identifiable net assets at fair value	162
Negative goodwill	(91)
Total consideration	71

All consideration was paid in cash and the amount is USD 71 thousand. The fair value of the trade receivables was USD 29 thousand. The gross contractual amounts of the trade receivables were not materially different from the fair value determined as part of the purchase price allocation.

Negative goodwill of USD 91 thousand represented the value of expected synergies decreasing from the acquisition and was allocated entirely to the IRI segment. None of the goodwill recognized was expected to be deductible for income tax purposes.

(USD in thousands)

Analysis of cash flows on acquisition:

Total consideration related to the acquisition	(71)
Net cash and cash equivalents acquired at the acquisition date	213
Net cash flows on acquisition (included in cash flows from investing activities)	142

The Pro Forma Statement of Financial Positions as of 30 June 2018 and 31 December 2018, and the Pro Forma Statement of Income of the Group for the six-month period ended 30 June 2018 and the year ended 31 December 2018 which the profit or loss of IoT have been retrospectively consolidated as part of Group's consolidated financial statements as if the acquisition of IoT had occurred on 1 January 2017 were as followed:

Pro Forma Statement of Financial Positions

	USD (in thousands)	
	30 June 2018	31 December 2018
ASSET		
CURRENT ASSETS		
Cash and cash equivalents	9,735	11,495
Trade receivables	631	50
Contract assets	102	267
Related parties	170	60
Income tax receivables	16	511
Other current assets	1,674	651
TOTAL CURRENT ASSETS	12,328	13,034
NON-CURRENT ASSETS		
Other financial assets	2,292	1,192
Investments accounted for using the equity method	21,475	17,531
Property, plant and equipment	3,345	777
Intangible assets	24	19
Deferred tax assets	51	147
Other non-current assets	-;-	9
TOTAL NON-CURRENT ASSETS	27,187	19,675
TOTAL ASSETS	39,515	32,702
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		

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Trade payable	2,682	147
Accruals and other payables	255	2,947
Contract liabilities	1,859	1,766
Income taxes payables	434	16
Obligations under finance leases	212	12
Related parties	37	62
TOTAL CURRENT LIABILITIES	5,479	4,950
NON-CURRENT LIABILITIES		
Obligations under finance leases	2,522	65
Asset Retirement Obligations	332	209
Contingencies and commitments	-;-	-;-
TOTAL NON-CURRENT LIABILITIES	2,854	274
TOTAL LIABILITIES	8,333	5,224
EQUITY		
Share capital	-;-	-;-
Capital surplus	9,604	14,845
Accumulated other comprehensive income	178	352
Exchange differences on translation from functional currency to presentation currency	1,286	1,495
Retained earnings	20,114	10,786
TOTAL EQUITY	31,182	27,478
TOTAL LIABILITIES AND EQUITY	39,515	32,702

Pro Forma Statement of Income

	USD (in thousand)	
	Six months ended	Year ended
	2018	2018
Revenue	9,143	11,169
Operating costs and expenses:		
Cost of sales	(3,419)	(4,281)
Selling, general and administrative	(6,553)	(11,898)
Research and Development	(582)	(1,202)
expenses		
Other incomes	10	31
Other expenses	(16)	(2)
Total operating costs and expenses	(10,560)	(17,352)
Operating loss	(1,417)	(6,183)
Operating expense		(955)
Finance income	0	90
Finance expense	(0)	(8)
Finance income (expense), net	(0)	82
Share of profit of investments accounted for using the equity method	3,354	1,739
Gain on change in share of investments accounted for using the equity method	63	162
Profit (loss) before income taxes	2,000	(5,155)
Income tax benefit	(729)	(264)
Profit (loss) for the year	1,271	(5,419)

Profit (loss) for the period attributable to:

Items that may be reclassified to profit or loss

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Share of other comprehensive income of investments accounted for using equity method	(17)	34
Change in fair value of available-for-sale financial assets	-;-	-;-
Differences from translation of financial statements from functional currency to presentation currency	-;-	657
<i>Items that will not be classified to profit or loss</i>		
Differences from translation of financial statements from functional currency to presentation currency	435	(13)
Change in fair value of equity securities at FVOCI	18	5
Share of other comprehensive income (loss) of investments accounted for using equity method	258	394
Total other comprehensive income, net of tax	694	1,077
Comprehensive loss for the year	1,964	(4,343)

NOTE 9 – SEGMENT REPORTING

Operating segments were determined based on the reports reviewed by the Chief Executive Officer (CEO) who is responsible for allocating resources and assessing performance of the operating segments, who is the Chief Operating Decision Maker (“CODM”).

An operating segment of the Group is a component for which discrete financial information is available. No operating segments have been aggregated to form the reportable segments.

The CEO considers the business from two areas of activities, as follows;

- (a) Information technology, which includes two operating segments:
 - (i) IRI Japan- it mainly provides consultancy services, research services and the reviewing of market trends in the field of internet technologies for companies, organizations and government institutions in Japan.
 - (ii) BBT- it mainly provides data center services, cloud services, storage solutions, AI (artificial intelligence) solutions, dedicated platform services and support of Virtual Network Operator setup/operation services to cable television operators. In addition, BBT deals in renewable energy and is the owner of a number of solar power stations. Revenue from a single external customers were approximately 14,465 thousands USD for six month ended 30 June 2018, 7,232 thousands USD for the three month ended 30 June 2018, 14,668 thousands USD for six month ended 30 June 2019, 7,336 thousands USD for the three month ended 30 June 2019 respectively.
 - (iii) IoT- it mainly provides IOT solutions and consultation services in the field of data security, and the design and production of films and production services.
- (b) Information service business
 - (i) NOM – it mainly provides planning, organization, production and management of conferences, exhibitions, seminars and other business events in the fields of internet technology, hi-tech, cyber security, etc.
- (c) Other
 - Other comprise of the investments in MIC. It is a general partner in an investment fund that mainly invests in startups in the technology and services industry, which focus on next generation ICT (information and communications technology) companies and in related areas.

Each segment is divided to services and equipment relating to revenues and cost of revenues. The reportable operating segments include the following measures: Revenues, Operating profit (loss), and Interest expenses and incomes, Tax, Depreciation and Assets.

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Six months ended 30 June 2018								
Unaudited								
USD (in thousands)								
	Technology Information			NOM	Other	Sub total	Adjustments	Total
	IRI	BBT	*IoT					
Segment revenues	166	*53,924	589	8,402	-	63,081	(54,513)	8,568
Operating profit (loss)	(2,266)	*(2,556)	(1,599)	2,448	-	(3,973)	4,155	182
Share of profit (loss) of investments accounted for using the equity method	(656)	454	-	-	3,659	3,457	(454)	3,003
Gain on change in share of investments accounted for using equity method	41	-	-	-	-	41	-	41
Profit (loss) before income tax	(2,881)	*(2,067)	(1,599)	2,448	3,659	(440)	3,666	3,226
Income tax expenses (benefit)	127	*548	(2)	(854)	-	(181)	(546)	(727)
Profit (loss) from continued operations	(2,754)	*(1,519)	(1,601)	1,594	3,659	(620)	3,119	2,499
Profit (loss) from discontinued operation	-	*(1,601)	1,601	-	-	-	-	-
Profit (loss) for the year	(2,754)	*(3,120)	-	1,594	3,659	(620)	3,119	2,499

*Re-classified

Six months ended 30 June 2019								
Unaudited								
USD (in thousands)								
	Technology Information			NOM	Other	Sub total	Adjustments	Total
	IRI	BBT	IOT					
Segment revenues	38	64,741	595	8,783	-	74,157	(64,755)	9,402
Operating profit (loss)	(1,421)	1,940	(1,614)	1,946	-	851	(1,910)	(1,059)
Share of profit (loss) of investments accounted for using the equity method	72	-	-	-	(32)	40	-	40
Gain on change in share of investments accounted for using equity method	1,423	-	-	-	-	1,423	-	1,423
Profit (loss) before income tax	40	2,273	(1,630)	1,922	(32)	2,573	(2,243)	330
Income tax expenses (benefit)	(61)	(969)	-	(809)	(9)	(1,848)	969	(879)
Profit (loss) for the year	(21)	1,304	(1,630)	1,113	(39)	725	(1,275)	(549)

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Year ended 31 December 2018

	USD (in thousands)							
	Technology Information							
	*IRI	BBT	*IoT	NOM	Other	Sub total	Adjustments	Total
Segment revenues	281	110,313	727	10,188	-	121,509	(111,054)	10,455
Operating profit (loss)	(3,923)	(6,002)	(3,396)	1,135	-	(12,186)	9,398	(2,788)
Share of profit (loss) of investments accounted for using the equity method	(1,668)	442	-	-	2,661	1,435	(442)	993
Gain on change in share of investments accounted for using equity method	112	-	-	-	-	112	-	112
Profit (loss) before income tax	(6,352)	(5,733)	(3,395)	1,135	2,661	(11,684)	9,128	(2,556)
Income tax expenses (benefit)	224	848	(5)	(483)	-	584	(843)	(259)
Profit (loss) from continued operations	(6,128)	(4,885)	(3,400)	652	2,661	(11,100)	8,285	(2,815)
Profit (loss) from discontinued operation	-	(3,400)	3,400	-	-	-	-	-
Profit (loss) for the year	(4,086)	(8,285)	-	652	2,661	(9,058)	8,285	(2,815)
Other segment items								
Finance income	90	317	-	-	-	406	(316)	90
Finance expense	(8)	(489)	-	(1)	-	(498)	489	(8)
Depreciation and amortization	(73)	(10,473)	-	(43)	-	(10,589)	10,473	(116)
Capital expenditure	427	46,066	-	65	-	46,558	(46,066)	492

* Re-classified

30 June 2018 (Unaudited)

	USD (in thousands)						
	Technology Information						
	IRI	*BBT	*IoT	NOM	Other	Adjustments	Total
Segment assets	20,745	175,011	2,407	6,786	5,526	(177,418)	33,057

30 June 2019 (Unaudited)

	USD (in thousands)						
	Technology Information						
	IRI	BBT	IoT	NOM	Other	Adjustments	Total
Segment assets	25,457	398,391	1,391	11,253	2,288	(400,670)	38,110

31 December 2018

	USD (in thousands)						
	Technology Information						
	IRI	*BBT	*IoT	NOM	Other	Adjustments	Total
Segment assets	24,351	217,161	499	5,550	2,301	(217,660)	32,202

* Re-classified

INTERNET RESEARCH INSTITUTE LTD
 NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 – SUBSEQUENT EVENTS

On 28 August 2019 the Company's Board of Directors has approved the efficiency plan that was developed by the Management, as follows:

- a. Costs reduction by minimizing half of IoT employees, merging the ticket activity of IoT into IRI Japan and interrupting other IoT's activities by no later than the end of 2019. or, alternatively, selling IoT's activities or raising additional investment in order to fund its operation.
- b. Selling BBT shares or, alternatively, funding through non- recourse bank borrowing against BBT's shares or privately subscribed bond on amount of USD 2.5 million.

According to the Company's management assessment, and based on the management plans as stated above, the Company believes that expected cash flow will be sufficient to fund the Company's planned operations for at least the next 12 months.

NOTE 11 – RECONCILIATION of BBT's FINANCIAL STATEMENTS FROM J-GAAP TO IFRS

On 6 August 2017, the Company submitted an application to the Securities Authority for approval of relief in attaching the reports of the affiliate BBT, whose securities are listed for trading on the Tokyo Stock Exchange in Japan, mainly approval to attach to the Company's reports BBT's financial statements prepared according to the accepted accounting principles in Japan (J-GAAP), as published for the public in Japan, translated into to English, together with a reconciliation note setting out the relevant differences in the BBT financial statements between the J-GAAP and the IFRS.

Moreover, in view of the fact that BBT's annual financial statements are published in Japan at the end of the second quarter of the calendar year (meaning 30 June), the Securities Authority staff approves the Company's requested to attach BBT's reports according to its reporting cycle.

To the financial statements of the Company for the period ended on 30 June 2019, attached is the audited quarterly reports of BBT, since BBT informed the Company that as of 31 December 2018, it has updated its reporting period in order to have the annual financial statements of BBT published together with the annual financial statements of the Company.

Below is transition from Japanese GAAP to IFRS at BBT as of and for the year ended 31 December 2018 and 2019. Since BBT's financial information under Japanese GAAP is denominated in JPY, the reconciliation below is presented in thousands of JPY.

Consolidated statement of financial position

		JPY (in thousands)			
		As of 31 December 2018			
Presentation under J-GAAP	Note	Reported under Japanese GAAP	Effect of transition to IFRS	IFRS	Presentation under IFRS
Current assets					
Cash and cash equivalents		7,250,975	(22,983)	7,227,993	Cash and cash equivalents
Notes and accounts receivable - trade	J	1,717,958	(19,638)	1,698,320	Notes and accounts receivable – trade
Marketable securities	E	221,964	-;-	221,964	Investment securities at fair value (Current)
Inventories		282,482	-;-	282,482	Inventories

INTERNET RESEARCH INSTITUTE LTD
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

-;-	A	-;-	48,727	48,727	Assets classified as held for sale
Current assets – Others		744,718	(3,231)	741,487	Current assets – Others
Allowance for doubtful accounts	J	(15,393)	15,393	-;-	Allowance for doubtful accounts
Total current assets		10,202,704	18,269	10,220,973	Total current assets
Non-current assets					
Property, plant and equipment	I	6,643,234	78,364	6,721,598	Property, plant and equipment
Intangible assets	B	1,960,730	48,639	2,009,369	Intangible assets
Goodwill	B	663,584	(5,343)	658,241	Goodwill
Investment securities	E, K	1,822,665	(1,788,736)	33,929	Investments accounted for using the equity method
-;-		-;-	2,105,616	2,105,616	Financial assets at fair value through comprehensive income
-;-		-;-	171,190	171,190	Financial assets at fair value through profit or loss
Deferred tax assets	C	209,959	243,247	453,206	Deferred tax assets - non current
Lease and guarantee deposits		1,488,263	(9,708)	1,478,555	Lease and guarantee deposits
Non-current assets - Others		158,947	(26,522)	132,423	Non-current assets - Others

INTERNET RESEARCH INSTITUTE LTD
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JPY (in thousands)

As of 31 December 2018					
Presentation under J-GAAP	Note	Reported under Japanese GAAP	Effect of transition to IFRS	IFRS	Presentation under IFRS
Total non-current assets		12,947,382	816,745	13,764,127	Total non-current assets
Total assets		23,150,086	835,013	23,985,099	Total assets

JPY (in thousands)

As of 31 December 2018					
Presentation under J-GAAP	Note	Reported under Japanese GAAP	Effect of transition to IFRS	IFRS	Presentation under IFRS
Current liabilities					Current liabilities
Accounts payable-trade		607,429	-;-	607,429	Trade payable
Short-term borrowings		1,831,952	-;-	1,831,952	Short-term borrowings
Lease obligations - - current	I	25,866	-;-	25,866	Obligation under finance leases - current
Accounts payable-other		779,206	(25,501)	753,705	Accruals, provisions and other payables
Income taxes payable		45,143	(1,776)	43,367	Income taxes payable
-;-	G	-;-	366,324	366,324	Contract liabilities
-;-		-;-	41,079	41,079	Liabilities directly associated with assets classified as held for sale
Others		795,191	(125,704)*	669,487*	Other current liabilities
Total current liabilities		4,084,792	254,422	4,339,214	Total current liabilities
Non-current liabilities					Non-current liabilities
Lease obligations		271,109	-;-	271,109	Obligation under finance leases
Long-term borrowings	I	6,339,164	(85,903)	6,253,261	Long-term borrowings
Asset retirement obligations		1,537,157	-;-	1,537,157	Asset retirement obligations
Deferred tax liabilities	C	468,984	60,530	529,515	Deferred tax liabilities - non current
-;-	G	-;-	10,716	10,716	Contract liabilities - non current
Non-current liabilities – Others		277,735	36,347*	314,082*	Other non-current liabilities
Total non-current liabilities		8,894,149	21,690	8,915,842	Total non-current liabilities

INTERNET RESEARCH INSTITUTE LTD
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JPY (in thousands)

As of 31 December 2018					
Presentation under J-GAAP	Note	Reported under Japanese GAAP	Effect of transition to IFRS	IFRS	Presentation under IFRS
Total liabilities		12,978,936	276,109	13,255,045	Total liabilities
Equity					Equity
Shareholders' equity					Shareholders' equity
Capital stock		2,404,404	-;	2,404,404	Capital stock
Capital surplus		2,841,553	5,260	2,846,813	Capital surplus
Retained earnings	K	2,247,960	423,994	2,671,955	Retained earnings
Treasury shares		(259,690)	-;	(259,690)	Treasury shares
Total shareholders' equity		7,234,230	429,254	7,663,484	Total shareholders' equity
Other comprehensive income		-;	-;	-;	Other comprehensive income
Valuation differences of available-for-sale investments		(3,313)	6,864	3,551	Valuation differences of available-for-sale investments
Foreign currency translation adjustment		(19,830)	-;	(19,830)	Foreign currency translation adjustment
Total other comprehensive income		(23,143)	6,864	(16,279)	Total other comprehensive income
Non-controlling interests		2,960,066	122,785	3,082,851	Non-controlling interests
Total equity		10,171,150	558,904	10,730,054	Total equity
Total liabilities and equity		23,150,086	835,013	23,985,099	Total liabilities and equity

* Re-classified

JPY (in thousands)

As of 30 June 2019					
Presentation under J-GAAP	Note	Reported under Japanese GAAP	Effect of transition to IFRS	IFRS	Presentation under IFRS
Current assets					Current assets
Cash and cash equivalents		8,723,112	-;	8,723,112	Cash and cash equivalents
Notes and accounts receivable-trade	J	1,859,664	(9,314)	1,850,350	Notes and accounts receivable-trade
Inventories		191,938	-;	191,938	Inventories
Current assets-Others		519,249	(204,257)	314,992	Other current liabilities
Allowance for doubtful accounts	J	(9,314)	9,314	-	-;
Total current assets		11,284,649	(204,257)	11,080,392	Total current assets
Non-current assets					Non-current assets

INTERNET RESEARCH INSTITUTE LTD
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JPY (in thousands)

As of 30 June 2019					
Presentation under J-GAAP	Note	Reported under Japanese GAAP	Effect of transition to IFRS	IFRS	Presentation under IFRS
Property, plant and equipment	I	6,567,117	86,237	6,653,354	Property, plant and equipment
-;-	G	-;-	17,499,059	17,499,059	Right-of-use assets
Intangible assets		2,076,346	38,087	2,114,432	Intangible assets
Goodwill	B	639,455	18,787	658,241	Goodwill
Investment securities	E,J	2,121,319	(2,087,387)	33,932	Investments accounted for using the equity method
-;-	E	-;-	2,485,119	2,485,119	Financial assets at fair value through other comprehensive income
-;-	E	-;-	251,249	251,249	Financial assets at fair value through profit or loss
Lease and guarantee deposits		1,478,306	-	1,478,306	Other financial assets at amortised cost
Deferred tax assets	C	236,766	189,169	425,935	Deferred tax assets
Non-current assets- Others		159,983	47,286	207,269	Other non-current assets
Total non-current assets		13,279,291	18,527,607	31,806,897	Total non-current assets
Total assets		24,563,940	18,323,350	42,887,290	Total assets

JPY (in thousands)

As of 30 June 2019					
Presentation under J-GAAP	Note	Reported under Japanese GAAP	Effect of transition to IFRS	IFRS	Presentation under IFRS
Current liabilities					Current liabilities
Accounts payable-trade		478,367	-	478,367	Trade payable
Short-term borrowings	I	1,919,726	-	1,919,726	Short-term borrowings
Lease obligations-current		36,100	3,013,219	3,049,319	Obligation under finance leases-current
Accounts payable-other		460,090	-	460,090	Accruals, provisions and other payables
Income taxes payable		106,287	-	106,287	Income taxes payable
-;-	H	-	460,068	460,068	Contract liabilities
Current liabilities-Others	L	940,338	(438,604)	501,734	Other current liabilities
Total current liabilities		3,940,908	3,034,683	6,975,592	Total current liabilities
Non-current liabilities					Non-current liabilities
Lease obligations		292,233	15,503,699	15,795,932	Obligation under finance lease
Long-term borrowings	I	6,506,708	(76,987)	6,429,721	Long-term borrowings
Asset retirement obligations		1,542,272	-	1,542,272	Asset retirement obligations
Deferred tax liabilities-non-current	D	502,570	71,867	574,437	Deferred tax liabilities
-;-	H	-	104,997	104,997	Contract liabilities-non current

INTERNET RESEARCH INSTITUTE LTD
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JPY (in thousands)

As of 30 June 2019					
Presentation under J-GAAP	Note	Reported under Japanese GAAP	Effect of transition to IFRS	IFRS	Presentation under IFRS
Non-current liabilities – Others	E	289,487	70,049	359,537	Other non-current liabilities
Total non-current liabilities		9,133,271	15,673,625	24,806,896	Total non-current liabilities
Total liabilities		13,074,179	18,708,308	31,782,487	Total liabilities
Equity					Equity
Shareholders' equity					Shareholders' equity
Capital stock		3,032,125	-	3,032,125	Capital stock
Capital surplus		3,512,474	10,545	3,523,019	Capital surplus
Retained earnings	K	1,853,811	(558,920)	1,294,891	Retained earnings
Treasury shares		(87,662)	-	(87,662)	Treasury shares
Total shareholders' equity		8,310,748	(548,375)	7,762,373	Total shareholders' equity
Other comprehensive income					Other comprehensive income
Valuation differences of available-for-sale investments	G	(10,339)	(39,888)	(50,227)	Valuation differences of financial assets at amortised cost
Foreign currency translation adjustment		(25,338)	-	(25,338)	Foreign currency translation adjustment
Total other comprehensive income		(35,677)	(39,888)	(75,565)	Total other comprehensive income
Stock compensation		3,493	(3,493)	-;	Stock compensation
Non-controlling interests		3,211,197	206,798	3,417,995	Non-controlling interests
Total equity		11,489,761	(384,958)	11,104,803	Total equity
Total liabilities and equity		24,563,940	18,323,350	42,887,290	Total liabilities and equity

Consolidated statement of financial position

JPY (in thousands)

As of 30 June 2018					
Presentation under J-GAAP	Note	Reported under Japanese GAAP	Effect of transition to IFRS	IFRS	Presentation under IFRS
Current assets					Current assets
Cash and cash equivalents		6,627,920	-;	6,627,920	Cash and cash equivalents
Notes and accounts receivable-trade	L	1,476,944	(6,702)	1,470,242	Notes and accounts receivable-trade
-;	G	-;	740,741	740,741	Financial assets at fair value through other comprehensive income-current
Inventories		223,559	-;	223,559	Inventories
Current assets-Others		1,068,836	20,329	1,089,165	Other current liabilities
Allowance for doubtful accounts	L	(6,702)	6,702	-;	-;
Total current assets		9,390,558	761,069	10,151,627	Total current assets

INTERNET RESEARCH INSTITUTE LTD
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Non-current assets			Non-current assets		
Property, plant and equipment	J	4,112,432	(10,084)	4,102,348	Property, plant and equipment
Intangible assets		1,547,985	6,330	1,554,315	Intangible assets
Goodwill	D	615,207	(11,164)	604,043	Goodwill
Investment securities	G, L	1,597,125	(1,564,014)	33,111	Investments accounted for using the equity method
-;-	G	-;-	1,739,212	1,739,212	Financial assets at fair value through other comprehensive income
-;-	G	-;-	160,894	160,894	Financial assets at fair value through profit or loss
Lease and guarantee deposits		845,693	-;-	845,693	Other financial assets at amortised cost
-;-	E	-;-	248,263	248,263	Deferred tax assets
Non-current assets- Others		126,979	77,855	204,834	Other non-current assets
Total non-current assets		8,845,423	647,292	9,492,715	Total non-current assets
Total assets		18,235,982	1,408,360	19,644,342	Total assets

JPY (in thousands)

As of 30 June 2018

Presentation under J-GAAP	Note	Reported under Japanese GAAP	Effect of transition to IFRS	IFRS	Presentation under IFRS
Current liabilities					Current liabilities
Accounts payable-trade		418,587	-;-	418,587	Trade payable
Short-term borrowings		1,763,532	-;-	1,763,532	Short-term borrowings
Lease obligations-current		26,228	-;-	26,228	Obligation under finance leases-current
Accounts payable-other		1,293,727	-;-	1,293,727	Accruals, provisions and other payables
Income taxes payable		116,088	-;-	116,088	Income taxes payable
-;-	H	-;-	429,929	429,929	Contract liabilities
Current liabilities- Others	F	729,101	(270,741)*	458,359*	Other current liabilities
Total current liabilities		4,347,263	159,189	4,506,452	Total current liabilities
Non-current liabilities					Non-current liabilities
Lease obligations		283,776	-;-	283,776	Obligation under finance lease
Long-term borrowings	K	3,195,600	(26,775)	3,168,825	Long-term borrowings
Asset retirement obligations		636,001	-;-	636,001	Asset retirement obligations
Deferred tax liabilities	E	488,745	32,731	521,476	Deferred tax liabilities
-;-	H	-;-	86,254	86,254	Contract liabilities-non current
Non-current liabilities - Others		102,152	17,808*	119,960*	Other non-current liabilities

INTERNET RESEARCH INSTITUTE LTD
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JPY (in thousands)

As of 30 June 2018					
Presentation under J-GAAP	Note	Reported under Japanese GAAP	Effect of transition to IFRS	IFRS	Presentation under IFRS
Total non-current liabilities		4,706,274	110,018	4,816,292	Total non-current liabilities
Total liabilities		9,053,538	269,206	9,322,744	Total liabilities
Equity Shareholders' equity					Equity Shareholders' equity
Capital stock		2,383,721	-;	2,383,721	Capital stock
Capital surplus		2,798,278	-;	2,798,278	Capital surplus
Retained earnings	M	2,133,962	1,113,403	3,247,365	Retained earnings
Treasury shares		(259,690)	-;	(259,690)	Treasury shares
Total shareholders' equity		7,056,272	1,113,403	8,169,675	Total shareholders' equity
Other comprehensive income					Other comprehensive income
Valuation differences of available-for-sale investments	G	-;	(63,949)	(63,949)	Valuation differences of financial assets at amortised cost
Foreign currency translation adjustment		(58,957)	-;	(58,957)	Foreign currency translation adjustment
Total other comprehensive income		(58,958)	(63,948)	(122,906)	Total other comprehensive income
Stock compensation		11,997	14,414	26,411	Stock compensation
Non-controlling interests		2,173,132	75,285	2,248,417	Non-controlling interests
Total equity		9,182,444	1,139,154	10,321,598	Total equity
Total liabilities and equity		18,235,982	1,408,360	19,644,342	Total liabilities and equity

*Re-classified

Consolidated statement of income

JPY (in thousands)

For the 6 month ended 30 June 2018						
Presentation under J-GAAP	Note	Reported under Japanese GAAP	Effect of transition to IFRS	Reclassification into Discontinued Operations	IFRS	Presentation under IFRS
Net revenue	A, F	5,897,683	27,159	(95,986)	5,828,856	Revenue
Cost of revenue	A, F	(4,486,764)	(410,151)	85,623	(4,811,292)	Cost of sales
Gross profit		1,410,919	(382,993)	(10,363)	1,017,564	Gross profit
Selling, general and administrative expenses	B, E	(1,548,676)	(1,866)	171,456	(1,379,086)	Selling, general and administrative expenses
	A	0	82,635	(442)	82,193	Other income
	A, I	0	(11,589)	1,174	(10,415)	Other expense

INTERNET RESEARCH INSTITUTE LTD
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Operating profit		(137,756)	(313,813)	161,825	(289,744)	Operating profit
Non-operating income	J	89,756	(89,756)	0	0	-
Non-operating expenses	J	(102,304)	102,304	0	0	-
Finance income	J	0	21,797	0	21,797	Finance income
Financial expense	A, J	0	(17,964)	3,999	(13,965)	Finance expense
Loss under equity method	J	0	49,316	0	49,316	Share of loss of investments accounted for using the equity method
Ordinary Loss		(150,305)	(248,115)	165,824	(232,596)	Ordinary Loss
Extraordinary income	J	50,698	(50,698)	0	0	Extraordinary income
Extraordinary loss	J	(427,716)	427,716	0	0	Extraordinary loss
Loss before income taxes		(527,324)	128,904	165,824	(232,596)	Loss before income taxes
Income taxes	A	(16,368)	75,697	223	59,552	Income taxes
Loss after income taxes		(543,691)	204,601	166,047	(173,043)	Loss after income taxes
Minority interest		46,595	(31,609)	0	14,986	Minority interest
-		0	0	0	0	-
Loss attributable to owners of parent		(497,096)	172,992	166,047	(158,057)	Loss attributable to owners of parent
Loss after income taxes		(543,691)	204,601	166,047	(173,043)	Loss for the year
Reclassification of loss from discontinued operations	C	-;-	-;-	(166,047)	(166,047)	Reclassification of loss from discontinued operations
Other comprehensive income (loss), net of tax:						Other comprehensive income (loss), net of tax:
Valuation difference on available-for-sale investment	E	(33)	41,323	-	41,290	Change in fair value of available-for-sale financial assets
Foreign currency translation adjustment		(14,247)	-	-	(14,247)	Foreign currency translation adjustment
Share of other comprehensive income of entities accounted for using equity method		(1,123)	-	-	(1,123)	Share of other comprehensive income of investments using the equity method
Total other comprehensive income (loss), net of tax		(15,402)	41,323	0	25,921	Total other comprehensive income (loss), net of tax
Comprehensive income (loss)		(559,093)	245,924	166,047	(147,123)	Comprehensive income (loss)
Comprehensive income attributable to Owners of parent		(512,498)	215,479	166,047	(130,972)	Comprehensive income attributable to Owners of parent
Non-controlling interests		(46,595)	30,445	-	(16,150)	Non-controlling interests

INTERNET RESEARCH INSTITUTE LTD
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JPY (in thousands)

For the 6 month ended 30 June 2019

Presentation under J-GAAP	Note	Reported under Japanese GAAP	Effect of transition to IFRS	IFRS	Presentation under IFRS
Net revenue	F	7,260,724	(137,428)	7,123,296	Revenue
Cost of revenue	F, G	(5,540,731)	621,117	(4,919,614)	Cost of sales
Gross profit		1,719,993	483,689	2,203,682	Gross profit
Selling, general and administrative expenses	B,E,G	(1,917,169)	(82,719)	(1,999,887)	Selling, general and administrative expenses
-;-		-;-	27,295	27,295	Other income
-;-		-;-	(17,662)	(17,662)	Other expense
Operating loss		(197,176)	410,603	213,428	Operating profit
Non-operating income	J	47,922	(47,922)	-;-	-;-
Non-operating expenses	J	(58,710)	58,710	-;-	-;-
-;-	J	-;-	141,346	141,346	Finance income
-;-	J	-;-	(104,733)	(104,733)	Finance expense
-;-	J	-;-	4	4	Share of profit of investments accounted for using the equity method
Ordinary profit		(207,964)	458,009	250,045	-;-
Extraordinary loss	J	(35,214)	35,214	-;-	-;-
Profit before income taxes		(243,178)	493,222	250,045	Profit before income taxes
Income taxes	C	(43,381)	(63,198)	(106,579)	Income taxes expense
Loss after income taxes		(286,559)	430,024	143,466	Loss for the year
Minority interest		56,236	39,497	95,733	Minority interest
Loss attributable to owners of parent		(342,794)	390,527	47,733	Loss attributable to owner of parent
Loss after income taxes		(286,558)	430,024	143,466	Loss for the year
Other comprehensive income, net of tax:					Other comprehensive income, net of tax:
Valuation difference on available-for-sale investment	E	(34,277)	80,002	45,726	Change in fair value of available-for-sale financial assets
Foreign currency translation adjustment		(5,507)	-;-	(5,507)	Foreign currency translation adjustment
Total other comprehensive income, net of tax		(39,784)	80,002	40,219	Total other comprehensive loss, net of tax
Comprehensive income		(326,343)	510,026	183,685	Comprehensive income
Comprehensive income attributable to Owners of parent		(355,653)	353,226	(2,427)	Comprehensive income attributable to Owners of parent
Non-controlling interests		29,311	156,800	186,112	Non-controlling interests

INTERNET RESEARCH INSTITUTE LTD
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JPY (in thousands)

For the 6 month ended 30 June 2019

Presentation under J-GAAP	Note	Reported under Japanese GAAP	Effect of transition to IFRS	IFRS	Presentation under IFRS
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A) Acquisition of TSS LINK, Inc.

Pursuant to the share exchange agreement executed on 21 December 2018, the Company completed a share exchange on 31 January 2019, whereby the Company became a wholly owning parent company resulting from share exchange, and TSS LINK, Inc. (“TSS”) became a wholly owned subsidiary resulting from share exchange, with the aim of enhancing its computer platform business to increase competitiveness. As a result of the above, the Company acquired 100% voting rights in TSS and made it a consolidated subsidiary.

Assets acquired and liabilities assumed

The identifiable assets and liabilities of TSS, which are measured at fair value as of the date of acquisition except for limited exceptions in accordance with IFRS, were as follows:

(JPY in thousands)

	Fair Value recognized on acquisition
Assets	
Current asset	140,069
Non-current asset	178,955
Total assets	319,024
Liabilities	
Current liabilities	(49,837)
Non-current liabilities	(52,490)
Total liabilities	(102,327)
Total identifiable net assets at fair value	216,697
Total consideration	216,697

Detail of purchase consideration is as follow.

	(in thousands of yen)
Cash paid	10,203
Loss on step acquisition	(3,785)
Ordinary shares issued	210,279
Total purchase consideration	216,697

From the date of acquisition, TSS had contributed JPY 66,646 thousand to the revenue of BBT and had increased profit from continuing operations of BBT by JPY 18,109 thousand. If the business combination had taken place on 1 January 2019, consolidated pro-forma revenue and profit from continuing operations would have been JPY 7,133,342 thousand and JPY 28,944 thousand for the 6 month ended 30 June 2019.

B) Acquisition of Okinawa Cable Network Inc.

On 3 October 2018, JapanCableCast Inc. (“JCC”), which is BBT’s consolidated subsidiary, acquired 100% of the voting shares of Okinawa Cable Network Inc. (“OCN”), an unlisted company based in Okinawa, Japan, specializing in providing dedicated cable television service. As a result of the acquisition, JCC obtained control, and OCN became consolidated subsidiaries of BBT. JCC acquired OCN for the purpose of proposing cable television operators to make progress of innovation of IP business by providing data broadcasting services with IP video distribution service, mutual smart TV service and hybrid cast technology.

As the purchase price allocation is incomplete as of issuance date of the consolidated financial statements, BBT reports provisional amounts at the acquisition as of 31 December 2018 and 30 June 2019 for

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Consolidated statement of financial position and for the 6 month ended 30 June 2019 for Consolidated statement of income.

Assets acquired and liabilities assumed

The identifiable assets and liabilities of OCN, which are measured at fair value as of the date of acquisition except for limited exceptions in accordance with IFRS, were as follows:

(JPY in thousands)

	Fair Value recognized on acquisition
Assets	
Cash and cash equivalents	387,560
Trade receivables	185,701
Inventories	18,058
Others	53,747
Property and equipment	380,588
Customer relationship assets	49,261
Other intangible assets	10,289
Deferred tax assets	193,257
Other non-current asset	4,071
Total assets	1,282,532
Liabilities	
Trade payables	(36,723)
Accruals and other payables	(152,172)
Income taxes payables	(78,222)
Asset Retirement Obligations	(762,518)
Other current liabilities	(8,899)
Other non-current liabilities	(198,195)
Total liabilities	(1,236,729)
Total identifiable net assets at fair value	45,803
Goodwill	54,197
Total consideration	100,000

All consideration was paid in cash. The fair value of the trade receivables was JPY 185,701 thousand. The gross contractual amounts of the trade receivables were not materially different from the fair value determined as part of the purchase price allocation.

Goodwill of JPY 54,198 thousand represented the value of expected synergies arising from the acquisition and was allocated entirely to the BBT segment. None of the goodwill recognized was expected to be deductible for income tax purposes.

C) Presentation of discontinued operations

Under Japanese GAAP, there is no specific requirements for the presentation of discontinued operations and reclassification of assets and liabilities as assets and liabilities held for sale.

Under IFRS, an operation which meets certain criteria is classified as a discontinued operation and its results should be presented separately from continuing operations.

The Company engaged to sell whole share of its 100% investment in IoT square, Inc. on 21, December 2018. Due to this, the assets and liabilities of IoT square, Inc. as at 31 December 2018 are reclassified as assets classified as held for sale and liabilities directly associated with assets classified as held for sale and income from discontinued operations for the 6 months ended 30 June 2018 are separately presented retrospectively.

D) Goodwill and intangibles

As allowed under Japanese GAAP, goodwill is amortized for a period of less than 20 years. Under IFRS, goodwill is not amortized and the impairment test is performed at least annually, or more frequently upon occurrence of a trigger event.

As a result, JPY 604,043 thousand, JPY 658,241 thousand and JPY 658,241 thousand of goodwill is recorded under IFRS as at 30 June 2018, 31 December 2018 and 30 June 2019, respectively. Subsequently, JCC, which is a subsidiary of BBT, acquired OCN on 3 October 2018. Goodwill arising from OCN acquisition is

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newly included as at 31 December 2018 and 30 June 2019. Reconciliation of goodwill between Japanese GAAP and IFRS 30 June 2018 , 31 December 2018 and 30 June 2019 are as follow.

	JPY (in thousands)		
	30 June 2019	31 December 2018	30 June 2018
Goodwill under Japanese GAAP	639,455	663,584	615,207
Reversal of amortization expense of goodwill under Japanese GAAP	79,367	55,238	32,379
GAAP adjustment from Japanese GAAP to IFRS as of 10 October related to JCC	(60,581)	(60,581)	(43,543)
Goodwill under IFRS	658,241	658,241	604,043

The Company tests whether goodwill has suffered any impairment on an annual basis at every 31 December under IFRS. The Company did not perform the impairment test, because there was no indication of potential impairment as at 30 June 2019.

E) Deferred tax assets and deferred tax liabilities

Japanese GAAP provides detailed guidance on assessing the recoverability of deferred tax assets. An entity is classified into 5 categories by its profitability and the extent of the recoverability of deferred tax assets and the length of estimated future periods to assess the recoverability of deferred tax assets are determined by such categories, and the scheduling of estimated future taxable income and the amounts thereof is taken into account in recording deferred tax assets by assessing the recoverability of assets in terms of the sufficiency of taxable income based on profitability, existence of tax planning and sufficiency of taxable temporary differences.

Under IFRS, the recoverability of deferred tax assets is assessed as they are recognized in terms of whether it is probable that taxable profits will be available against which the assets can be utilized. Deferred taxes recognized for other temporary differences arising from adjustments related to IFRS are also adjusted.

As a result, , JPY248,263 thousand, JPY243,247 thousand and JPY 189,169 thousand of deferred tax assets are 1) adjusted as the differences of the treatment of recoverability of deferred taxes under Japanese GAAP and IFRS, 2) recorded from the adjustment accounting entries from Japanese GAAP to IFRS, also off set the deferred tax assets with the liabilities, as at 30 June 2018, 31 December 2018 and 30 June 2019, respectively.

F) Unused paid absences

Under Japanese GAAP, no provision is made for employees' unused rights to paid absences. Under IFRS, they are recognized in other current liabilities.

For the 6 month ended 30 June 2018 and 2019, the expense relating to the unused paid absence at JPY 35,801(expense) thousand and JPY 50,057(expense) thousand are included as the adjustment from Japanese GAAP to IFRS, respectively. In addition, others in the current liability as at 30 June 2018, 31 December 2018 and 30 June 2019 are increased by JPY 77,023 thousand, JPY 53,767 thousand and JPY 103,824 thousand, respectively, due to the adjustment from Japanese GAAP to IFRS.

G) Fair value measurement

Under Japanese GAAP, if a financial asset does not have a quoted market value, then where an entity is able to reasonably calculate a price which can be considered to be a quasi-quoted price, such price may be used for that financial asset as a market value. The "reasonably calculated price" represents, a price calculated using reasonable estimates of management.

Under IFRS, the Company referred to the levels of the fair value hierarchy for financial instruments measured at fair value on the reconciliation based on the following inputs:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities.

- Level 2 inputs are quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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– Level 3 inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable, which reflect the reporting entity’s own assumptions that market participants would use in establishing a price.

(1) Fair value measurements by fair value hierarchy

Assets measured at fair values on a recurring basis in the reconciliation as of 31 December 2018 and 30 June 2019 are as follows:

	Level 1	Level 2	Level 3	JPY (in thousands) Total
As at 30 June 2018				
Assets				
Financial assets at fair value through other comprehensive income	-;-	740,741	1,518,260	2,259,001
Financial assets at fair value through profit or loss	-;-	-;-	160,894	160,894
Total	-;-	740,741	1,679,154	2,419,895

	Level 1	Level 2	Level 3	JPY (in thousands) Total
As at 31 December 2018				
Assets				
Financial assets at fair value through other comprehensive income	-;-	-;-	2,327,579	2,327,579
Financial assets at fair value through profit or loss	-;-	-;-	171,190	171,190
Total	-;-	-;-	2,498,769	2,498,769

	Level 1	Level 2	Level 3	JPY (in thousands) Total
As at 30 June 2019				
Assets				
Financial assets at fair value through other comprehensive income	-;-	-;-	2,485,119	2,485,119
Financial assets at fair value through profit or loss	-;-	-;-	251,249	251,249
Total		-;-	2,736,368	2,736,368

The table below presents the changes in level 3 instruments for the relevant periods:

	Level 3 JPY (in thousands)
Balance at 1 January 2018	1,699,874
Additions of financial assets	589,058
Disposal of financial assets	(452,086)
Fair value gain/(loss) through other comprehensive income	63,260
Balance at 30 June 2018	1,900,106
Balance at 1 January 2019	2,498,769
Additions of financial assets	396,333
Disposal of financial assets	(222,000)

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Fair value gain/(loss) through other comprehensive income	(51,703)
Fair value gain/(loss) on valuation carried to other comprehensive income	120,724
Others	(5,755)
Balance at 30 June 2019	<u>2,736,368</u>

There were no transfers between levels 1, 2 and 3 during the relevant periods.

H) Fair value measurement

Under Japanese GAAP, if a financial asset does not have a quoted market value, then where an entity is able to reasonably calculate a price which can be considered to be a quasi-quoted price, such price may be used for that financial asset as a market value. The “reasonably calculated price” represents, a price calculated using reasonable estimates of management.

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– Level 3 inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable, which reflect the reporting entity’s own assumptions that market participants would use in establishing a price.

(2) Fair value measurements by fair value hierarchy

Assets measured at fair values on a recurring basis in the reconciliation as of 31 December 2018 and 30 June 2019 are as follows:

	Level 1	Level 2	Level 3	JPY (in thousands) Total
As at 30 June 2018				
Assets				
Financial assets at fair value through other comprehensive income	-;-	740,741	1,518,260	2,259,001
Financial assets at fair value through profit or loss	-;-	-;-	160,894	160,894
Total	-;-	740,741	1,679,154	<u>2,419,895</u>

	Level 1	Level 2	Level 3	JPY (in thousands) Total
As at 31 December 2018				
Assets				
Financial assets at fair value through other comprehensive income	-;-	-;-	2,327,579	2,327,579
Financial assets at fair value through profit or loss	-;-	-;-	171,190	171,190
Total	-;-	-;-	2,498,769	<u>2,498,769</u>

	Level 1	Level 2	Level 3	JPY (in thousands) Total
As at 30 June 2019				
Assets				

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(3) Fair value measurements by fair value hierarchy

Assets measured at fair values on a recurring basis in the reconciliation as of 31 December 2018 and 30 June 2019 are as follows:

	Level 1	Level 2	Level 3	Total
As at 30 June 2018			JPY (in thousands)	

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Assets				
Financial assets at fair value through other comprehensive income	-;-	740,741	1,518,260	2,259,001
Financial assets at fair value through profit or loss	-;-	-;-	160,894	160,894
Total	-;-	740,741	1,679,154	2,419,895

	JPY (in thousands)			
	Level 1	Level 2	Level 3	Total
As at 31 December 2018				
Assets				
Financial assets at fair value through other comprehensive income	-;-	-;-	2,327,579	2,327,579
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Total	-;-	-;-	2,498,769	2,498,769

	JPY (in thousands)			
	Level 1	Level 2	Level 3	Total
As at 30 June 2019				
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Financial assets at fair value through other comprehensive income	-;-	-;-	2,485,119	2,485,119
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J) Fair value measurement

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(4) Fair value measurements by fair value hierarchy

Assets measured at fair values on a recurring basis in the reconciliation as of 31 December 2018 and 30 June 2019 are as follows:

	JPY (in thousands)			
	Level 1	Level 2	Level 3	Total
As at 30 June 2018				
Assets				
Financial assets at fair value through other comprehensive income	-;-	740,741	1,518,260	2,259,001
Financial assets at fair value through profit or loss	-;-	-;-	160,894	160,894
Total	-;-	740,741	1,679,154	2,419,895
	JPY (in thousands)			
	Level 1	Level 2	Level 3	Total
As at 31 December 2018				
Assets				
Financial assets at fair value through other comprehensive income	-;-	-;-	2,327,579	2,327,579
Financial assets at fair value through profit or loss	-;-	-;-	171,190	171,190
Total	-;-	-;-	2,498,769	2,498,769
	JPY (in thousands)			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
As at 30 June 2019				
Assets				
Financial assets at fair value through other comprehensive income	-;-	-;-	2,485,119	2,485,119
Financial assets at fair value through profit or loss	-;-	-;-	251,249	251,249
Total	-;-	-;-	2,736,368	2,736,368

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Disposal of financial assets	(222,000)
Fair value gain/(loss) through other comprehensive income	(51,703)
Fair value gain/(loss) on valuation carried to other comprehensive income	120,724
Others	(5,755)
Balance at 30 June 2019	2,736,368

There were no transfers between levels 1, 2 and 3 during the relevant periods.

K) Revenue recognition

BBT derives more than 90% of its revenues from recurring revenue streams, consisting primarily of 1) Computer platform business; 2) IoT/AI solution business; 3) Media solution business.

1) Computer platform business

Main component in the computer platform business is data center business, consisting primarily of 1) colocation, which includes the licensing of cabinet space and power; (2) interconnection offerings; (3) managed infrastructure solutions. The remainder of the revenues are from non-recurring revenue streams, such as installation revenues, professional services and equipment sales. Under the revenue accounting guidance under IFRS 15, revenues are recognized when control of these products and services is transferred to its customers, in an amount that reflects the consideration it expects to be entitled to in exchange for the products and services. Revenues from recurring revenue streams are generally billed monthly and recognized ratably over the term of the contract, generally one to three years for data center customers. Non-recurring installation fees, although generally paid upfront upon installation, are deferred and recognized ratably over the average customer relationship periods. Professional service fees and equipment sales are recognized in the period when the services were provided.

2) IoT/AI solution business

IoT/AI solution business mainly supports contact centers and help desks operators through natural language analysis technology. Under the revenue accounting guidance under IFRS15, revenues are recognized when control of these services is transferred to its customers, in an amount that reflects the consideration it expects to be entitled to in exchange for the services. Revenue from the services are recognized in the period when the services were provided.

3) Media solution business

Media solution business provides the telecommunications network business for cable television operators and program suppliers throughout Japan. The remainder of the revenues are from non-recurring revenue streams, such as installation revenues, professional services and equipment sales. Under the revenue accounting guidance under IFRS 15, revenues are recognized when control of these products and services is transferred to its customers, in an amount that reflects the consideration it expects to be entitled to in exchange for the products and services. Revenues from recurring revenue streams are generally billed monthly and recognized ratably over the term of the contract, generally one to three years for cable

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television operators and program suppliers. Non-recurring installation fees are recognized in the period when the services were provided.

Under Japanese GAAP, revenue is recognized when each good is accepted by the Company's customer or for the contractual period when each service is provided. The revenue from initial installation services at the datacenter business is recognized at the time of installation.

However, under IFRS 15, which has been adopted from 1 January 2018, the Company recognize revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset. The Company has concluded that the current methods of revenue recognition and measurement under Japanese GAAP are in accordance with both IFRS 15 and former IAS 18, with the exception of installation services. Under both IFRS 15 and former IAS 18, the initial installation services is recognized over the period of the expected period of the customer relationship.

As a result of the adjustment at revenue recognition, the revenue for the 6 month ended 30 June 2018 increased by JPY 27,158 thousand and the revenue for the 6 month ended 30 June 2019 decreased by JPY 84,721 thousand. Also the cost of sales for the 6 month ended 30 June 2018 increased by JPY 20,054 thousand and the cost of sales for the 6 month ended 30 June 2019 decreased by JPY 37,278 thousand.

The Company has provided the services to various customers. In the computer platform business of BBT, Yahoo Japan Corporation is the largest customer for more than 10 percent of total segment revenue under J-GAAP at JPY 1,604,237 thousand and JPY 1,624,095 thousand for the 6 month ended 30 June 2018 and 2019, respectively.

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L) Lease

BBT has adopted IFRS 16 Leases from the fiscal year beginning 1 January 2019. BBT has applied the modified retrospective method permitted by IFRS 16 and recognized the cumulative amount of the impact as of 1 January 2019 upon adoption of the standard. As a result, BBT has not restated the amounts in the comparative reporting period prior to adoption of IFRS 16.

IFRS 16 sets out the principal for the recognition, measurement, presentation and disclosure of lease contracts for lessees and lessors. Under IFRS 16, lessees no longer make a distinction between finance and operating leases as required under IAS 17, and apply a single accounting model. At the commencement date of a lease, lessees recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use assets). Subsequently, lessees are required to recognize separately the interest expense on the lease liability and the depreciation expense on the right-of-use assets. The right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life of the assets or the lease term. Lessors accounting under IFRS 16 remains substantially unchanged as IAS 17.

Upon the adoption of IFRS 16, BBT recognized lease liabilities for its leases previously classified as operating lease under IAS 17. The lease liabilities were measured at the present value of the remaining lease payments, discounted at the incremental borrowing rate as of 1 January 2019. The weighted average incremental borrowing rate used for the lease liabilities as of 1 January 2019 was 0.51%.

BBT applied the following practical expedients permitted by IFRS 16 when applying IFRS 16:

- Accounted operating leases with less than 12 months of lease term remaining as of 1 January 2019 for as short-term leases and low value leases.
- Used hindsight when determining the lease term of contract including extension options and/or termination options.
- By class of underlying asset, not to separate non-lease components from lease components, and instead accounts for each lease component and any associated non-lease components as a single lease component.

BBT elected not to apply IFRS 16 to the agreements that were not identified as containing a lease component applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease*.

As a result, BBT recognized JPY 17,334,928 thousand for the right-of-use assets and lease liabilities, respectively, in the Consolidated Statement of Financial Position as of 1 January 2019 and JPY 1,476,841 thousand of impairment loss related to the right-of-use assets as of 1 January 2019 is recognized. Due to recognition of right-of-use assets and liabilities, BBT recognized corresponding same amount of deferred tax assets and liabilities, thus impact of deferred tax accounting relating to the implementation of IFRS 16 was nil.

The carrying amount of right of use assets at the first implementation day and at the end of the reporting period are as follow.

JPY (in thousands)	31 December 2018	30 June 2019
Buildings	15,286,547	15,824,419
Machines and equipment	571,540	1,674,640
Total	15,858,087	17,499,059

Due to the adoption of IFRS 16, cost of revenue and rent expense which included operating lease expenses decreased by JPY 1,148,266 thousand and JPY 169,482 thousand, respectively for the 6 month period ended 30 June 2019. The depreciation and amortization expenses which included the depreciation expenses

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of right-of-use assets, and finance costs which included interest expenses for lease liabilities increased by JPY 871,412 thousand and JPY 52,076 thousand, respectively for the six month period ended 30 June 2019.

The accounting policies applied by the Group in accordance with the IFRS 16 *Leases* as of 1 January 2019 are as follows:

BBT, as a lessee, mainly leases properties. A lease contract is normally entered into the fixed term from 1 year to 15 years but it may include extension options.

Leases are recognized as right-of-use assets and the corresponding liabilities when the lease assets become available for use by BBT. Each lease payment is apportioned between repayments of the lease liability and finance costs. The finance costs are accounted for as expenses over the lease term and calculated based on constant periodic rate of interest on the remaining balance of the lease liability. The right-of-use assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

The assets and liabilities arising from leases are measured at the present value of the lease at the commencement date. The lease liability includes the net present value of the following lease payments:

- fixed payments less any lease incentives
- variable lease payments that depends on an index or a rate
- amounts expected to be payable under a residual value guarantee
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option. to terminate the lease

Lease payments are determined using the discount rate as the interest rate implicit in the lease, if that rate can be readily determined, or the Group's incremental borrowing rate.

The right-of-use assets is measured at cost shall comprise:

- the amount of the initial measurement of the lease liability
- any lease payments made at or before the commencement date, less any lease incentives received
- any initial direct cost
- cost of restoring the underlying asset to the original condition

As a practical expedient, BBT elects, by class of underlying asset, not to separate non-lease components from lease components, and instead accounts for each lease component and any associated non-lease components as a single lease component.

The lease payments associated with short-term lease and leases of low-value assets are recognized as expenses on a straight-line basis.

A short-term lease is a lease that, at the commencement date, has a lease term of 12 months or less. A lease of low-value asset, for example, comprises low value assets such as office furniture and fixture.

Most of the BBT's property leases include extension options and termination options.

Extension option shall be included in the lease term only if the lessee is reasonably certain to exercise that option.

Due to adoption of IFRS 16, JPY 1,485,459 thousand of "Principle elements of lease payment" is disclosed in "Cash flows from financing activities" in the BBT consolidated statement of cash flow. On the other hand, "Principle elements of lease payment" is presented in "Cash flows from operating activities" since operating lease is off-balanced under Japanese GAAP.

M) Impairment of plant, property and equipment

Under Japanese GAAP, an impairment loss is recognized when there is an indicator of impairment and (1) The undiscounted value of total future cash flows is below the asset's carrying amount; then (2) The recoverable amount of an asset is below its carrying amount. There are two steps for recognition of an impairment loss.

Under IFRS, an impairment loss is recognized when there is an indication of impairment and when the recoverable amount of an asset is below its carrying amount. Step 1 under Japanese GAAP is not required under IFRS.

N) Loan covenants

To raise funds flexibly for investment demand in the new data center established in August 2018, BBT has signed a commitment-type syndicated loan agreement of 4.0 billion in total with five banks including our counterparties arranged by Sumitomo Mitsui Banking Corporation in March 2018 and the agreement was updated in December 2018. This agreement includes financial conditions as follows.

1) At the end of the fiscal year ended 30 June 2018 and every subsequent fiscal year-end, the total amount of net assets on the consolidated balance sheet shall not be less than the higher of either: an amount equivalent to 80% of total net assets on the consolidated balance sheet at the end of the fiscal year ended 30 June 2017; or an amount equivalent to 80% of total net assets on the consolidated balance sheet at the end of the most recent fiscal year.

2) At the end of the fiscal year ended 31 December 2020 and every subsequent fiscal year-end, an ordinary loss on the consolidated statement of income shall not be recorded for two consecutive fiscal years.

3) At the second quarter end of the fiscal year ended 31 December 2020, an ordinary loss on the consolidated statement of income shall not be recorded.

The Company has complied with these covenants throughout the reporting period.

O) Reclassification

a) Allowance for doubtful accounts

Under Japanese GAAP, the allowance for doubtful accounts is separately presented on the balance sheet. Under IFRS, allowances for doubtful accounts are offset against the applicable accounts (i.e. accounts receivable).

As a result, JPY 6,702 thousand, JPY 15,394 thousand and JPY 9,314 thousand included in the account of the allowance for doubtful accounts are transferred to Notes and accounts receivables – trade as at 30 June 2018, 31 December 2018 and 30 June 2019, respectively.

b) Investment securities

Under Japanese GAAP, investments accounted for using the equity method are presented as a part of investment securities with the investment securities, however, under IFRS, it's independently presented as the investment accounted for using the equity method.

JPY 33,111 thousand, JPY 16,259 thousand and JPY 16,262 thousand included in the account of the investment securities are independently presented as at 30 June 2018, 31 December 2018 and 30 June 2019, respectively.

c) Non-operating income & expense and Extraordinary income & loss

Under Japanese GAAP, non-operating income and expense are presented below operating profit. These accounts consist of financial income and expense, foreign exchange gain (loss), profit (loss) under equity method investment and others. In addition, exceptional items are required to be presented as "Extraordinary income and loss" on the face of the income statement. The definition of "special" is broader compared to IFRS and includes some extraordinary items.

Under IFRS, financial income, financial expense and profit (loss) under equity method investment is usually shown below operating profit. The term exceptional items is not used or defined, however, separate disclosure is required (either on the face of the comprehensive income statement or in the notes) when it is necessary to allow an entity to explain its performance for the period as a result of the size, nature or incidence of certain items of income and expense. It is prohibited to present any items as "Extraordinary" under IFRS.

P) Retained earnings

Reconciliation of retained earnings under Japanese GAAP and IFRS is below-

INTERNET RESEARCH INSTITUTE LTD
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	30 June 2018 JPY (in thousands)	31 December 2018 JPY (in thousands)	30 June 2019 JPY (in thousands)
Reported under Japanese GAAP	2,133,962	2,247,961	1,853,811
Reversal of amortization of goodwill	32,379	55,237	79,368
Amortization of customer relationship asset	-	(2,463)	(7,389)
Deferred taxes	365,745	237,848	205,955
Unused paid absences	(77,022)	(39,469)	(83,637)
Impairment of Property, Plant & Equipment	(24,394)	(35,153)	68,801
Revenue recognition	(130,276)	(49,467)	(44,204)
Impairment of investment securities	(11,827)	(11,827)	(11,828)
Non-controlling interests	(79,551)	(35,916)	(95,096)
Adjustment for application of Effective interest method	83,442	85,569	77,654
Discontinuing the use of the equity method	688,617	-	-
Effect of application of IFRS 9	340,136	340,136	397,460
Provision for unfavorable contract	-	(161,900)	(44,100)
Effect of application of IFRS 16	-	-	(970,075)
Employee benefit obligation	-	(1,019)	(34,722)
Others	(73,846)	42,417	(97,107)
Reported under IFRS	3,247,365	2,671,954	1,294,891