

INTERNET RESEARCH INSTITUTE LTD

Interim Financial Reporting
(Unaudited)
30 June, 2018

INTERNET RESEARCH INSTITUTE LTD
INTERIM CONDENSED CONSOLIDATED FINANCIAL POSITION

	Note	USD (In thousands)		
		30 June	30 June	31 December
		2017	2018	2017
ASSET				
CURRENT ASSETS				
Cash and cash equivalents		11,466	7,731	8,949
Trade receivables	2	798	450	10
Contract asset	2	-	102	-
Related parties	8	294	170	1
Income tax receivables		52	16	153
Other current financial assets	2	-	-	94
Other current assets	2	828	1,595	802
TOTAL CURRENT ASSETS		13,438	10,064	10,009
NON-CURRENT ASSETS				
Other financial assets	2	116	808	777
Investments accounted for using the equity method	2,6	18,435	21,475	17,878
Property, plant and equipment		81	642	262
Intangible assets		13	17	11
Deferred tax assets	2	318	51	524
TOTAL NON-CURRENT ASSETS		18,963	22,993	19,452
TOTAL ASSETS		32,401	33,057	29,461
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Trade payable	2	2,472	2,682	180
Borrowings		38	-	-
Accruals and other payables	2	1,242	1,571	4,446
Contract liabilities	2	-	255	-
Obligations under finance leases	2	11	13	12
Related parties	8	1	36	38
Income taxes payables		272	415	-
TOTAL CURRENT LIABILITIES		4,036	4,972	4,676
NON-CURRENT LIABILITIES				
Obligations under finance leases	2,4	14	2	8
Borrowings		7	-	-
Asset Retirement Obligations		30	203	196
TOTAL NON-CURRENT LIABILITIES		51	205	204
TOTAL LIABILITIES		4,087	5,177	4,880
EQUITY				
Share capital	3	5,081	-	-
Capital surplus	3	4,253	9,604	9,604
Retained earnings	2	17,678	16,812	13,752
Accumulated other comprehensive income	2	26	178	373
Other reserve		270	-	-
Exchange differences on translation from functional currency to presentation currency	2	1,006	1,286	852
TOTAL EQUITY		28,314	27,880	24,581
TOTAL LIABILITIES AND EQUITY		32,401	33,057	29,461

INTERNET RESEARCH INSTITUTE LTD
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

For the six months ended 30 June, 2017 and 2018

USD (In thousands)

	Note	Six month period ended 30 June (Unaudited)		Year ended 31 December
		2017	2018	2017
Revenue	2,5	7,228	8,568	9,121
Operating costs and expenses:				
Cost of sales	2	(2,518)	(2,826)	(3,100)
Selling, general and administrative	2	(3,289)	(5,526)	(8,942)
Research and Development expenses		(56)	(34)	(130)
Other incomes		4	6	7
Other expenses		-;-	(6)	(30)
Total operating costs and expenses		(5,859)	(8,386)	(12,195)
Operating profit		1,369	182	(3,074)
Finance income		1	0	2
Finance expense		(1)	(0)	(1)
Finance income (expense), net		0	(0)	1
Share of profit of investments accounted for using the equity method	6	1,260	3,003	1,457
Gain on change in share of investments accounted for using equity method	6	115	41	123
Profit(loss) before income taxes		2,744	3,226	(1,493)
Income tax expense	2	(641)	(727)	(330)
Profit(loss) for the year		2,103	2,499	(1,823)
Profit(loss) for the period attributable to:				
Owners of the parent		2,103	2,499	(1,823)
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 (loss) of investments accounted for using equity method		(215)	(17)	133
Change in fair value of available-for-sale financial assets		(8)	-;-	(9)
		(223)	(17)	124
<i>Items that will not be classified to profit or loss</i>				
Differences from translation of financial statements from functional currency to presentation currency		732	435	578
Change in fair value of available-for-sale financial assets		-;-	18	-;-
Share of other comprehensive income of investments accounted for using equity method		-;-	258	-;-
Total other comprehensive income, net of tax		509	694	702
Comprehensive income for the year		2,612	3,193	(1,121)
Earnings per share attributable to owners of the parent				
Basic (USD)		0.072	0.072	(0.057)
Diluted (USD)		0.072	0.072	(0.057)

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)	Other reserve	Exchange differences on translation from functional currency to presentation currency	Total equity
Balance as of 31 December,2016		837	-;-	15,575	249	270	274	17,205
Profit for the year		-;-	-;-	2,103	-;-	-;-	-;-	2,103
Other comprehensive loss, net of tax		-;-	-;-	-;-	(223)	-;-	732	509
Total comprehensive income (loss) for the period		-;-	-;-	2,103	(223)	-;-	732	2,612
Transaction with owners and other								
Issuance of subscription rights to shares		4,244	4,253	-;-	-;-	-;-	-;-	8,497
Total transaction with owners and other		4,244	4,253	-;-	-;-	-;-	-;-	8,497
Balance as of 30 June,2017(Unaudited)		5,081	4,253	17,678	26	270	1,006	28,314

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)	Other reserve	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	2 -;-	-;-	561	(454)	-;-	(1)	106
Balance as of 1 January,2018 (Unaudited)	-;-	9,604	14,313	(81)	-;-	851	24,687
Profit for the period	-;-	-;-	2,499	-;-	-;-	-;-	2,499
Other comprehensive income net of tax	-;-	-;-	-;-	259	-;-	435	694
Total comprehensive income 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	Other reserve	Exchange differences on translation from functional currency to presentation currency	Total equity	
Balance as of 31 December,2016	837	-;-	15,575	249	270	274	17,205	
Loss for the year	-;-	-;-	(1,823)	-;-	-;-	-;-	(1,823)	
Other comprehensive income , net of tax	-;-	-;-	-;-	124	-;-	578	702	
Total comprehensive income (loss) for the period	-;-	-;-	(1,823)	124	-;-	578	(1,121)	
Transaction with owners and other								
Issuance of common shares	4,244	4,244	-;-	-;-	-;-	-;-	8,488	
Share based expenses related to issuance of common shares	-;-	9	-;-	-;-	-;-	-;-	9	
Decrease by merger	(5,081)	5,081	-;-	-;-	-;-	-;-	-;-	
Lapse of subscription rights to shares	-;-	270	-;-	-;-	(270)	-;-	-;-	
Total transaction with owners and other	(837)	9,604	-;-	-;-	(270)	-;-	8,497	
Balance as of 31 December,2017	-;-	9,604	13,752	373	-;-	852	24,581	

INTERNET RESEARCH INSTITUTE LTD
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

		USD (In thousands)		
		Six months ended 30 June (Unaudited)		31 December
	Note	2017	2018	2017
Cash flows from operating activities:				
Profit(loss) before income taxes		2,744	3,226	(1,493)
Depreciation and amortization		17	51	35
Share of profit of investments accounted for using equity method	6	(1,260)	(3,003)	(1,457)
Gain on change in share of investments accounted for using the equity method	6	(115)	(41)	(123)
Finance income and finance expense, net		0	0	(1)
Share-based compensation expenses		9	-;	9
IPO related costs with regards to issuance cost		-;	169	175
Change in assets and liabilities				
Trade receivables		(734)	(497)	(0)
Contract assets		-;	99	-;
Trade payable		2,389	2,546	109
Accruals and other payables		(1,672)	(583)	1,687
Contract liabilities		-;	(2,532)	-;
Others		(570)	(9)	(406)
Dividends received		100	103	1,101
Interest received		1	0	7
Interest paid		(1)	(0)	(1)
Income taxes paid(refund)		(15)	142	(303)
Net cash provided by operating activities		893	(329)	(661)
Cash flows from investing activities:				
Acquisitions of property, plant and equipment		(6)	(429)	(51)
Acquisitions of intangible assets		(8)	(7)	(8)
Proceeds from collection of loan to related parties	8	-;	-;	288
Payments for guarantee deposits		-;	-;	(757)
Acquisition of other financial assets		(1)	(1)	(2)
Proceeds from collection of guarantee deposits		-;	97	-;
Net cash used in investing activities		(15)	(340)	(530)
Cash flows from financing activities:				
Repayments of long-term financing liabilities		(20)	-;	(62)
Proceeds from issuance of common shares		8,488	-;	8,488
Payment for IPO related cost		-;	(741)	(350)
Repayments of obligations under finance leases		(6)	(6)	(12)
Net cash provided by financing activities		8,462	(747)	8,064
Net change in cash and cash equivalents		9,340	(1,416)	6,873
Cash and cash equivalents at beginning of year		2,095	8,949	2,095
Capital fund from translation differences		31	198	(19)
Cash and cash equivalents at end of year		11,466	7,731	8,949

INTERNET RESEARCH INSTITUTE LTD
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – GENERAL INFORMATION, REORGANIZATION AND BASIS OF PRESENTATION

1.1 General Information

Internet Research Institute Ltd (the “Company”) was established as a limited company in Israel under the Israel Companies Ordinance on 8 August 2017. The Company listed shares of its common stock on the Tel-Aviv Stock Exchange on August 9, 2018.

The Company wholly owns Internet Research Institute, Inc. (collectively “IRI Japan” at pre/post-merger or “New IRI Japan”) which was established as a limited company in Japan under the Japanese Companies Ordinance on 5 October 2017 and named IRI Inc. at the time of establishment. IRI Japan has been playing a key role in the development of Internet technologies and services in Japan and it became a wholly subsidiary of the Company as a result of triangular merger discussed in Note 2.2 to the annual consolidated financial statements for the year ended 31 December, 2017.

The registered address of the company is Abba Hiller Rd. 16, Ramat Gan, Israel 5250608. The Company provides an Internet related research and development services and acts as an investment holding company as well. The Company and its subsidiaries (the “Group”) are principally engaged in Internet service (the “Listing Business”) in Japan.

1.2 Non-inclusion of separate financial information

Under regulation 4 of the Periodic and Immediate Reports regulations, the Company did not include separate financial statements under regulation 9c and 38d of the Israel Securities Regulations (Periodic and Immediate Reports), 1970.

The reason that the Company did not include separate financial information is in light of the negligible effect that the Company's condensed financial statements have on the condensed consolidated financial statements.

1.3 Basis of Preparation

The unaudited interim condensed consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting.

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, 2017.

The unaudited interim condensed consolidated financial statements were approved by Hiroshi Fujiwara, Chairman and Chief Executive Officer and Mirei Kuroda, Chief Financial Officer on 29 August 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.

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 2017, 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

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 2017.

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 2018 had no impact on the Group's unaudited interim condensed consolidated financial statements as of and for the six-month periods ended 30 June 2017 and 2018 and annual consolidated financial statements as of 31 December 2017, except for the following standards.

2.1 IFRS15 Revenue from Contracts with Customers

The IASB issued IFRS 15 Revenue from Contracts with Customers for recognizing revenue. IFRS 15 establishes a five-step model that will apply to all revenue arising from contracts with customers, regardless of the type of transaction or industry, with limited exceptions.

The Group has concluded that the current methods of revenue recognition and measurement over each business are in accordance with IFRS 15, with the exception of the following business.

The Group has adopted IFRS 15 from the fiscal year 2018. The Group has used the modified retrospective method which is to record cumulative amount of the impact at the beginning balance of the retained earnings upon adoption.

Information service business

As discussed in Note 9 Segment Reporting, the Group provides "Information service business" that provides planning, organization, production and management of conferences, exhibitions, seminars and other business in the fields of internet technology, hi-tech, cyber security etc.

The business is mainly comprised of a) Host event business and b) Private event support service as follows.

a) Host event business

The business is to plan, hold, operate and manage conferences, exhibitions and seminars (hereafter "host event") by the Group as an organizer entirely, and it is the performance obligation.

Under the previous standard, the Group recognized the revenue of the business at a time when the host event has been totally completed.

On the other hand, under IFRS 15, the definition of "Satisfaction of performance obligation" is clarified, and the performance obligation is categorized as "Performance obligations satisfied over time" or "Performance obligations satisfied at a point in time". Furthermore, IFRS 15 defines as "if an entity does not satisfy a performance obligations over time, the performance obligation is satisfied at a point in time".

The customer of the business are mainly exhibitors and sponsors of the host events, and they receive the benefit of the business provided by the Group over the event period. Therefore, the Group determines that its performance obligation is evenly satisfied over time and assessed that a straight-line method over event period is the best method to measure the progress towards complete satisfaction of the performance obligation.

Accordingly, the new standard resulted in a change to the timing of revenue recognition, whereby revenue is recognized over the event period on a straight-line method rather than the previous method, which was at a time when the event has been totally completed.

Even though the timing of revenue recognition is changed by adoption of IFRS 15, there were no host events that its event period crossed the finance closing date as of 1 January and 30 June, 2018, respectively. Accordingly, there is no effect on the opening balance of retained earnings and the revenue for the six-month ended 30 June, 2018.

b) Private event support service

The service is to provide support service for the private event held by the customer who is an organizer of the event. The support service are mainly providing the promotion activities and

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the reception of the private event etc. behalf of the customer, and the content of the service depends on each contract.

Under the previous standard, the Group recognized the revenue of the service at a time when the service was fully completed (at the end of contract period).

On the other hand, under IFRS 15, the definition of "Satisfaction of performance obligation" is clarified as discussed above, the Group examined each contract and determined that some contracts meet the criteria of "Performance obligations satisfied over time" by considering its terms and conditions.

In terms of the contracts, the Group determined that they recognize its revenue only to the extent of the costs incurred, by considering the nature of the service that outcome of its performance obligation will be clear in the late stage of the services on around relevant event date.

Accordingly, the new standard resulted in a change to the revenue recognition method, whereby revenue is recognized over the event period on a cost method rather than the previous method, which was at a time when the service has been totally completed.

As a result, compared to the previous method, the amount of revenue recognized by the Group increased by 132 thousand USD for the six-month ended 30 June, 2018.

In addition to the above, under IFRS 15, a definition of a "Contract costs" is clarified. In terms of information services business as discussed above, the Group determined that certain costs attributed to the host or the customers' events which will be held in nearly future, meet the criteria of "Costs to fulfil a contract" under IFRS 15.

Accordingly, the new standard resulted in a change to accounting treatment over certain costs, whereby certain costs are capitalized and amortized until the end of the service rather than the previous method, which those costs were recorded as expenses in the income statements as incurred.

As a result, compared to the previous method, the amount of cost of sales recorded by the Group increased by 50 thousand USD, and selling, general and administrative increased by 78 thousand USD for the six-month ended 30 June, 2018, respectively.

As a result of those changes as discussed above, the opening balance of retained earnings is adjusted as follows.

	USD (In thousands)
	January 1 2018
Private event support service	10
Costs to fulfil a contract	97
Total	107

The adjustments made to line items presented on the financial statements due to the change from IAS 18 Revenue and other standards applied previously (collectively, the IAS 18 and other) to IFRS 15 are as follows. Reclassifications are made to reflect the terms used under IFRS 15. Certain amounts previously presented in trade and other receivables related to private event support service are reclassified into contract assets, and certain amounts previously presented in other current assets related to prepaid expenses arising from information service business are reclassified into contract assets. Furthermore, certain amounts previously presented in accruals and other payables regarding the advance received associated with host event business are reclassified into contract liabilities.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	USD (In thousands)			1 January,2018 (under IFRS 15)
	1 January,2018 (under IAS18 and others)	Reclassification	Remeasurement	
Contract assets	-;-	33	163	196
Other current assets	802	(33)	-;-	769
Investments accounted for using the equity method (*)	17,878	-;-	-;-	17,878
Deferred tax assets	524	-;-	(57)	467
Accruals and other payables	4,446	(2,696)	-;-	1,750
Contract liabilities	-;-	2,696	-;-	2,696
Retained earnings	13,752	-;-	107	13,859
Exchange differences on translation from functional currency to presentation currency	852	-;-	(1)	851

	USD (In thousands)			30 June,2018 (under IFRS 15)
	30 June,2018 (under IAS18 and others)	Reclassification	Remeasurement	
Contract assets	-;-	77	25	102
Other current assets	1,672	(77)	-;-	1,595
Investments accounted for using the equity method (*)	21,475	-;-	-;-	21,475
Deferred tax assets	110	-;-	(59)	51
Accruals and other payables	1,971	(255)	(145)	1,571
Contract liabilities	-;-	255	-;-	255
Retained earnings	16,704	-;-	108	16,812
Exchange differences on translation from functional currency to presentation currency	1,285	-;-	1	1,286

(*) Even though each affiliate has also applied IFRS 15 from 1 January 2018, there is no effect on their opening retained earnings and the profit (loss) as of and for the six-month period ended 30 June 2018. Accordingly, there is no effect on the investments accounted for using the equity method by adoption of IFRS 15 as well.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	USD (In thousands)			
	2018 (under IAS 18)	Reclassification	Remeasurement	2018 (under IFRS 15)
Revenue	8,436	-;	132	8,568
Operating costs and expenses:				
Cost of sales	(2,776)	-;	(50)	(2,826)
Selling, general and administrative	(5,448)	-;	(78)	(5,526)
Research and Development expenses	(34)	-;	-;	(34)
Other incomes	6	-;	-;	6
Other expenses	(6)	-;	-;	(6)
Total operating costs and expenses	(8,258)	-;	(128)	(8,386)
Operating profit	178	-;	4	182
Finance income	0	-;	-;	0
Finance expense	(0)	-;	-;	(0)
Finance income (expense), net	(0)	-;	-;	(0)
Share of profit of investments accounted for using the equity method	3,003	-;	-;	3,003
Gain on change in share of investments accounted for using equity method	41	-;	-;	41
Profit before income taxes	3,222	-;	4	3,226
Income tax expense	(725)	-;	(2)	(727)
Profit for the year	2,497	-;	2	2,499
Profit for the period attributable to:				
Owners of the parent	2,497	-;	2	2,499
Earnings per share attributable to owners of the parent				
Basic (USD)	0.072	-;	(*) -;	0.072
Diluted (USD)	0.072	-;	(*) -;	0.072

(*) less than thousand US dollars.

2.2 IFRS 9 Financial Instruments

The IASB issued the final version of IFRS 9 Financial Instruments which sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 is the new standard for the financial reporting of financial instruments that is principles-based and brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project. IFRS 9 is built on a single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics including new impairment requirements that are based on a more forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. The Group has applied the following accounting policies in accordance with IFRS 9 commencing on 1 January, 2018.

(1) Classification of financial assets

Based on the Group's business model for managing the financial assets and the characteristics of contractual cash flow of the financial assets, the Group classifies the financial assets by following categories. Gains and losses arising from assets measured at fair value are either recorded in profit or loss or other comprehensive income, depending on the Group's intention. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

i. Financial assets as amortized cost

Financial assets measured at amortized cost are debt instruments held for collection of contractual cash flows and those cash flows represent solely payments of principal and interest.

ii. Financial assets at fair value through other comprehensive income

Financial assets measured at fair value through other comprehensive income are debt instruments whose contractual cash flows represent solely payments of principal and interest on the principal amount outstanding and which are held within a business model both to collect contractual cash flows and sell and equity instruments which the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

iii. Financial assets at fair value through profit or loss

Subsequent to initial recognition, financial assets are measured at fair value. A gain or loss on debt instruments which is not part of a hedging relationship is recognized in profit or loss.

(2) Measurement of financial assets

Initial measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through other comprehensive income, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Subsequent measurement

Debt instruments:

i. Amortized cost

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Financial assets at amortized cost are measured at amortized cost using the effective interest method, and related interest income is included in finance income. When the asset is derecognized or impaired, a gain or loss on a debt investment is recognized in profit or loss.

ii. Fair value through other comprehensive income (FVOCI)

Subsequent to initial recognition, financial assets are measured at fair value and gains or losses arising from changes in the fair value are recorded in other comprehensive income, except for the recognition of interest revenue, foreign exchange gains or losses and expected credit losses which are recognized in profit or loss.

iii. Fair value through profit or loss

Subsequent to initial recognition, financial assets are measured at fair value. A gain or loss on debt instruments which is not part of a hedging relationship is recognized in profit or loss.

Equity instruments:

Where the Group has irrevocably elected to designate equity instruments as financial assets measured at fair value through other comprehensive income, movements in the carrying amount by fair value measurement are recognized as other comprehensive income.

There is no subsequent reclassification of cumulative gains or losses previously recognized in other comprehensive income to profit or loss. Where the Group has not elected to designate equity instruments as financial assets measured at fair value through other comprehensive income, movements in the carrying amount by fair value measurement are recognized in profit or loss.

Dividends from equity investments are recognized in profit or loss as "Finance income" when the Group's right to receive payments is established.

(3) Impairment of financial assets

The Group assesses the expected credit losses associated with its assets carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables only, the Group applies the simplified approach permitted by IFRS9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

The Group has applied IFRS 9 retrospectively and has determined not to restate the comparative information for the period beginning 1 January, 2017. As a result, the comparative information is prepared based on the Group's previous accounting policies. On 1 January, 2018, the Group has assessed which business models to apply to its financial assets and liabilities and classified such financial assets and liabilities in to appropriate classification under IFRS 9. The impacts of these classifications are as follows.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Balance as of 1 January, 2018 under IFRS 9					Impact by adoption of IFRS9		
	Balance at January 1, 2018 under IAS 39 and others	Financial assets/liabilities at fair value through profit or loss	Financial assets/liabilities at FVOCI	Financial assets/liabilities at amortized cost	Total financial assets/liabilities	Fair value measurement at January 1, 2018	Provision at January 1, 2018	Total impacts
Financial assets :								
Trade receivables								
Trade receivables	10	-:-	-:-	10	10	-:-	-:-	-:-
Total	10	-:-	-:-	10	10	-:-	-:-	-:-
Other current financial assets								
Office security deposits	94	-:-	-:-	94	94	-:-	-:-	-:-
Total	94	-:-	-:-	94	94	-:-	-:-	-:-
Other financial assets, non-current								
Available-for-sale for equity securities	15	-:-	15	-:-	15	-:-	-:-	-:-
Other financial assets at amortized cost, mainly office security deposits	762	-:-	-:-	762	762	-:-	-:-	-:-
Total	777	-:-	15	762	777	-:-	-:-	-:-
Financial liabilities :								
Current								
Trade payables	180	-:-	-:-	180	180	-:-	-:-	-:-
Other payables	1,592	-:-	-:-	1,592	1,592	-:-	-:-	-:-
Amounts due to related parties	38	-:-	-:-	38	38	-:-	-:-	-:-
Obligations under finance lease	12	-:-	-:-	12	12	-:-	-:-	-:-
Total	1,822	-:-	-:-	1,822	1,822	-:-	-:-	-:-
Non-current								
Obligations under finance lease	8	-:-	-:-	8	8	-:-	-:-	-:-
Total	8	-:-	-:-	8	8	-:-	-:-	-:-

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Following are the impacts on accumulated deficit and accumulated other comprehensive income by classification and measurement of financial assets at 1 January, 2018.

	USD (In thousands)	
	Retained earnings	Financial assets at FVOCI
Balance of retained earnings and accumulated OCI as of 1 January, 2018 under IAS 39	13,752	373
(1) Reclassification from available-for-sale financial assets to financial assets at FVOCI	27	(27)
(2) Impact of IFRS 9 adoption by associate companies	427	(427)
Adjustment to shareholders' equity from adoption of IFRS 9	454	(454)
Balance of retained earnings and accumulated OCI as of 1 January, 2018 under IFRS 9	14,206	(81)

(1) Reclassification from available-for-sale financial assets to financial assets at FVOCI

The investments in private equity securities of 15 thousand USD as of 1 January, 2018, was reclassified from available-for-sale financial assets to financial assets at FVOCI as the cash flows from these investments did not represent solely payments of principal and interest on the principal amount outstanding and as the Group has determined to measure such investments at FVOCI. Also, related cumulative impairment loss and its tax effects of 27 thousand USD was reclassified from retained earnings to accumulated other comprehensive income.

(2) Impact of IFRS 9 adoption by associate companies

Broad Band Tower, Inc. ("BBT") and Mobile Internet Capital, Inc. ("MIC") as affiliates of the Group have financial assets and liabilities. As a result of adoption of IFRS 9 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

As discussed in Note 6, MIC is a venture capital investing in ICT related venture companies, and the investing are executed by three private funds in which MIC involves as a general partner. Some of investments held by three private funds are classified as "invests in equity instruments" under IFRS 9, and the Group made election to present other comprehensive income subsequent changes in the fair value of the investments.

In connection with this, as of 1 January, 2018, MIC reclassified related cumulative impairment loss and its tax effects of 57 thousand USD from retained earnings to accumulated other comprehensive income at their financial statements. Except for this adjustment, the Group determined that there is no impact in MIC.

As a result of the adjustments in each affiliate, related cumulative loss profit investments accounted for using equity method and its tax effects of 654 thousand USD was reclassified from retained earnings to accumulated other comprehensive income through applying the equity method by the Group.

2.3 The group does not early adopt standards, interpretations and amendments which are issued but not yet effective.

IFRS 16 Leases

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019, although early adoption is permitted if IFRS 16 is also applied. The Group does not intend to early adopt the standard as it plans to apply from 1 January 2019. Also, the Group plans to use the modified retrospective method which is to record cumulative amount of the impact at the beginning balance of the retained earnings upon adoption.

As of and for the period ended 30 June 2018, the Group is yet to assess the full impact of the standard. However, the Group tentatively assessed that the new standard will result in a change to the accounting treatment over the office lease transaction only in IRI Japan and NOM.

Under the previous standard, the lease transaction is classified as “Operating lease” and relevant rent fees are recognized as operating expenses over the lease period. On the other hand, under IFRS 16, the Group will recognize a right-of-use asset and corresponding liability. The liability will be measured at the present value of the remaining lease payments. Each lease payment will be allocated between the liability and finance cost, and the finance cost will be charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The associated right-of-use asset will be measured at the amount equal to the lease liability and amortized over the estimated lease term on a straight-line basis.

As a result of the change, the Group estimated the tentative impact as increase of right-of-use assets of 4,907 thousand USD, increase of lease liabilities of USD 5,069 thousand USD and decrease of retained earnings of 134 thousand USD (net of tax) in the balance sheet on 1 January, 2019.

In terms of impact of adoption of the new standard by each affiliate, especially BBT group will have a material impact by considering the nature of the services provided by them such as data center business and dedicated platform services. However, the Group is yet to assess the impact and accordingly, the Group has not yet estimated the impact attributed to each affiliate at this reporting.

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NOTE 3 – ISSUED CAPITAL AND RESERVES

Issuance of common stock

At the annual extraordinary general meeting of shareholders held on 12 January 2017 and 17 May 2017, the Company resolved to issue common stock to a director of the company and general investors and to authorize the board of directors to determine the subscription requirements. The details of the common stock are as follows:

Issuance of common stock on 12 January 2017

Candidates and numbers of candidates	One director, one employee and three general investors.
Total number of common stock issued	650,000 shares
Amount of proceeds for common stock (*)	105 yen per share equals 0.92 USD per share
Payment period	From 23 January 2017 to 31 January 2017
The share capital and capital reserve to be increase	Under the Companies act of Japan, at least 50% of the proceeds of certain issuances of share capital shall be credited to share capital. The remaining proceeds shall be credited to share premium.
Purpose of issuing common stock	For a part of the Company's capital policy

Issuance of common stock on 17 May 2017

Candidates and numbers of candidates	Media Do Co., Ltd.
Total number of common stock issued	7,000,000 shares
Amount of proceeds for common stock	125 yen per share equals 0.11 USD per share
Payment date	31 May 2017
The share capital and capital reserve to be increase	Under the Companies act of Japan, at least 50% of the proceeds of certain issuances of share capital shall be credited to share capital. The remaining proceeds shall be credited to share premium.
Purpose of issuing common stock	For capital and business alliance

(*) The fair value of the Company's share on 12 January 2017 is estimated at 125 yen per share which is based on the issue-price of 17 May 2017 of 125 yen per share, therefore, the share-based compensation expenses of 9,000 USD have been charged in the second quarter of 2017.

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NOTE 4 – 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.
- 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

Financial assets of the group that measured at FV composed of financial assets at FVOCI in amount of USD 33 thousands as of June 30, 2018, (and of financial assets available for sale for equity securities in amount of 15 thousands as of June 30 and December 31, 2017) that measured at level 3.

(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, 2018 (unaudited)	
Balance at 31 December 2017	15
Fair value gain/(loss) on valuation	18
Translation differences	(0)
Balance at 30 June 2018 (unaudited)	33
The six month period ended 30 JUNE, 2017 (unaudited)	
Balance at 31 December 2016	23
Fair value gain/(loss) on valuation	(9)
Translation differences	1
Balance at 30 JUNE 2017 (unaudited)	15
The year ended 31, December, 2017 (audited)	
Balance at 31 December 2016	23
Fair value gain/(loss) on valuation	(8)
Translation differences	(*)-;-
Balance at 31 December 2017	15

(*) less than thousand US dollars.

As at 30 June 2018, 30 June 2017 and 31 December 2017, financial assets at FVOCI and financial assets for available for sale comprise of equity instruments.

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NOTE 5– Revenue from contracts with customers

The Group's operations and main revenue streams are those described in the last annual financial statements. The Group's revenue is derived from contracts with customers. The nature and effect of initially applying IFRS 15 on the Group's interim financial statements are disclosed in Note 2. Also, details regarding disaggregated revenue included at segments reporting note (see Note 9).

The full amount of USD 2,696 thousand recognized in contract liabilities at the beginning of the period has been recognized as revenue for the six months ended 30 June 2018.

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NOTE 6– INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

1. General Information

Set out below are the associates of the Group as at 30 June 2018, 30 June 2017 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	31 December 2017		
BroadBand Tower, Inc.	• Computer platform business • IoT/AI solutions • Media solutions business	22%	22%	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	31 December 2017	Six months ended 30 June (Unaudited)	2018	31 December 2017
USD (In thousands)						
BroadBand Tower, Inc.	17,163	15,949	16,330	100	103	1,101
Mobile Internet Capital, Inc.	1,272	5,526	1,548	-;	-;	-;
	18,435	21,475	17,878			

Quoted fair value of BroadBand Tower, Inc. as at 30 June, 2018, 30 June, 2017 and 31 December, 2017, are USD 17,140 thousand, USD 25,388 thousand and USD 18,857 thousand, respectively.

- (1) BroadBand Tower, Inc. is a trailblazer in the specialty Internet data center business, BroadBand Tower supports IoT, 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.

The Company holds 22% 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 Company has therefore determined that it has significant influence over this entity.

- (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.

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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
	2017	2018	2017
Current assets	78,134	91,684	93,168
Non-current assets	51,534	85,734	82,494
Total assets	129,668	177,418	175,662
Current liabilities	30,131	40,004	44,348
Non-current liabilities	20,207	44,194	40,616
Total liabilities	50,338	84,198	84,964
Total Net assets	79,330	93,220	90,698
Group's share in %	22%	22%	22%
Carrying amount	17,163	15,949	16,330

	USD (In thousands)		
	Six months ended 30 June (Unaudited)		31 December
	2017	2018	2017
Revenue	35,347	54,513	78,125
Expense	43,899	57,632	86,385
Profit (loss) from continuing operations	(8,552)	(3,119)	(8,260)
Profit from discontinued operations *	14,823	-;-	14,857
Profit (Loss)	6,271	(3,119)	6,597
Profit (Loss) attributable to:			
Owners of the parent of the company	5,258	(2,981)	5,269
Non-controlling interests	1,013	(138)	1,328
Other comprehensive income (loss)	(987)	239	184
Total comprehensive income (loss)	5,284	(2,880)	6,781
Total comprehensive income (loss) attributable to:			
Owners of the parent of the company	4,269	(2,732)	5,451
Non-controlling interests	1,015	(148)	1,330

* Discontinued operations for the six months ended 30 June 2017 and for the year ended 31 December 2017 is relating to the partial sale of BBT's shareholding in its subsidiary BBF, Inc. and lost its control on 30 June 2017.

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Individually immaterial associates*

	Six months ended 30 June (Unaudited)		31 December
	2017	2018	2017
	USD (In thousands)		
Aggregate carrying amount of individually immaterial associates	4,240	18,421	5,160
The investments in Mobile Internet Capital Inc.	1,272	5,526	1,548
Profit from continuing operations	343	12,199	992
Other comprehensive income	5	1,044	304
Total comprehensive income	348	13,243	1,296

(*) 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.

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

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

	Six months ended 30 June (Unaudited)		31 December
	2017	2018	2017
	USD (In thousands)		
Profit (loss) attributable to owners of BBT	5,258	(2,981)	5,269
Group's share in BBT %	22%	22%	22%
Share of profit (loss) of BBT	<u>1,157</u>	<u>(656)</u>	<u>1,159</u>
Profit attributable to owners of MIC	343	12,199	992
Group's share in MIC %	30%	30%	30%
Share of profit of MIC	<u>103</u>	<u>3,659</u>	<u>298</u>
Share of profit of investments accounted for using the equity method	<u>1,260</u>	<u>3,003</u>	<u>1,457</u>

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

Six months ended 30 June (Unaudited)	31 December
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	2017	2018	2017
	USD (In thousands)		
Other comprehensive income (loss) attributable to owners of BBT	(987)	254	184
Group's share in BBT %	22%	22%	22%
Share of other comprehensive income (loss) of BBT	(217)	56	41
Other comprehensive income (loss) attributable to owners of MIC	5	1,044	304
Group's share in MIC %	30%	30%	30%
Share of Other comprehensive income (loss) of MIC	2	313	92
Share of other comprehensive income (loss) of investments accounted for using the equity method	(215)	369	133

NOTE 7 – SEASONAL OPERATIONS

Due to the seasonal nature of the NOM segment, higher revenues and operating profits are usually expected in the six-month period ended 30 June than other half of the year. 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 2017, 64% of revenues in the six-period ended 30 June was recorded in the NOM segment.

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NOTE 8 – 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 2017 and 2018, and the year ended 31 December 2017. Please note that the scope of related parties has been changed due to the change in reporting entity with regards to the triangle merger.

Name of related parties	Relationship with the Company/Group	Period subject to related parties
Hiroshi Fujiwara	Director of the Company, Chairman of the board of directors and CEO, and Representative director of IRI Japan, President and CEO	From 1 January, 2016
Mieko Nakagawa	Director of the Company, and Director of IRI Japan, COO	From 1 January, 2016
Mirei Kuroda	CFO of the Group	From 20 November, 2017
Elchanan Harel	Director of the Company	From 20 November, 2017
Kazuto Sasaki	Director of IRI Japan	From 1 January, 2016 to 19 November, 2017
Osamu Nakamura	Independent Director of IRI Japan	From 1 January, 2016 to 19 November, 2017
Yasushi Fujita	Independent Director of IRI Japan	From 1 June, 2017 to 19 November, 2017
Hidehiko Suzuki	Corporate Auditor of IRI Japan	From 1 January, 2016 to 19 November, 2017
IRI Japan	Subsidiary	From 20 November, 2017
NANO Opt Media, Inc.	Subsidiary	From 1 January, 2016
BroadBand Tower, Inc.	Affiliate	From 1 January, 2016
Unimo, Inc.	Company owned by director	From 1 January, 2016
IoT Square, Inc.	Subsidiary of BroadBand Tower, Inc.	From 2 October, 2017
Remote Sensing Technology Center of Japan	Company owned by director	From 1 January, 2016
Internet Association Japan	Company owned by director	From 1 January, 2016
Astro Aerospace	Company owned by director	From 1 January, 2016

(a) BALANCES classified as related parties

	USD thousand		
	30 June (Unaudited)		31 December
	2017	2018	2017
Current assets			
Booked in the company and IRI Japan:			
-Loan to Hiroshi Fujiwara	288	-;	-;
-Interest Receivable to Hiroshi Fujiwara	6	-;	-;
-Trade Receivable to IoT Square, Inc.	-;	-;	1
-Trade Receivable to Internet Association Japan	-;	50	-;
-Prepaid expense to Internet Association Japan	-;	(*)-;	-;
-Trade Receivable to Unimo, Inc.	10	10	10
-Allowance for Doubtful accounts to Unimo, Inc.	(10)	(10)	(10)
Booked in NANO OPT Media, Inc.:			
-Other receivable to Unimo, Inc.	20	21	20

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-Allowance for Doubtful accounts to Unimo, Inc.	(20)	(21)	(20)
-Prepaid expense to Astro Aerospace	-;-	120	-;-
Total	<u>294</u>	<u>170</u>	<u>1</u>

Current liabilities

Booked in the company and IRI Japan:

-Account payable to BroadBand Tower, Inc.	1	1	1
-Account payable for Hiroshi Fujiwara	-;-	35	37
Total	<u>1</u>	<u>36</u>	<u>38</u>

(*) 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 thousand		
	Six month period ended 30 June (Unaudited)	Year ended 31 December	
	2017	2018	2017
Booked in the company and IRI Japan:			
Transaction with Management Executives			
-Loan to Hiroshi Fujiwara	-;-	-;-	288
-Interest Income from Loan to Hiroshi Fujiwara	2	-;-	2
-Account payable for Hiroshi Fujiwara	-;-	-;-	37
Transaction with Other Related Parties			
-Outsourcing cost to BroadBand Tower, Inc.	(6)	(6)	(21)
-Sales to BroadBand Tower, Inc.	123	-;-	143
-Sales to IoT Square, Inc.	-;-	14	3
-Sales to Internet Association Japan	-;-	46	-;-
-Payment of membership fee to Internet Association Japan	-;-	(1)	-;-
Booked in NANO OPT Media, Inc.			
Transaction with Other Related Parties			
-Sales to BroadBand Tower, Inc.	11	10	18
-Sales to Remote Sensing Technology Center of Japan	-;-	-;-	9
-Sales to Internet Association Japan	-;-	-;-	10
-Consulting fee to Astro Aerospace	-;-	61	-;-
-Outsourcing cost to BroadBand Tower, Inc.	-;-	-;-	(9)
-Payment of membership fee to Internet Association Japan	-;-	-;-	-;-(*)
Total	<u>130</u>	<u>124</u>	<u>480</u>

(*) less than thousand USD.

Loan as at 30 June 2017 was for ordinary purpose. These loans were unsecured, interest-bearing at 0.6%-3% per annum and repayable on demand. As at 30 June 2017, there was no impairment for the amount due from a director as the amount have not past due and they have no history of default in payment. On November 9, 2017, the Group collected all outstanding loans from Hiroshi Fujiwara. Other transactions were conducted in the ordinary course of the business of the Group based on the terms mutually agreed between the relevant parties.

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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 3 directors and 1 CFO of the Company. The compensation paid or payable to key management for employee services is shown below:

	USD thousand		
	Six month period ended 30 June (Unaudited)		Year ended 31 December
	2017	2018	2017
Executive compensation	93	85	265
Share-based payment	5	-;-	5
Total	98	85	270

(d) Guarantees by directors and shareholders

As at 30 June 2017, USD 42 thousands of the Group's banking facilities were secured by personal guarantee provided by the director of the Company, Hiroshi Fujiwara. The guarantee was related to the borrowings from the banking facilities in Nano-opt Media and it is limited to the outstanding of the borrowings. Nano-opt Media completed early repayment for all outstanding of their borrowings on 15 November 2017 and it resulted that the personal guarantee provided by Hiroshi Fujiwara was cancelled as well.

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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- 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 VNO 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.
- (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, 2017

	Unaudited						
	USD thousand						
	Technology Information						
	IRI	BBT	NOM	Other	Sub total	Adjustments	Total
Segment revenue from external customers	213	35,347	7,015	-	42,575	(35,347)	7,228
Operating profit (loss)	(370)	733	1,739	-	2,102	(733)	1,369
Share of profit (loss) of investments accounted for using the equity method	1,157	(2,392)	-	103	(1,132)	2,392	1,260
Gain on change in share of investments accounted for using equity method	115	-	-	-	115	-	115
Profit (loss) before income tax	902	(2,609)	1,739	103	135	2,609	2,744
Income tax expenses (benefit)	(21)	(5,943)	(620)	-	(6,584)	5,943	(641)
Profit (loss) from continued operations	881	(8,552)	1,119	103	(6,449)	8,552	2,103
Profit (loss) from discontinued operation	-	14,823	-	-	14,823	(14,823)	-
Profit for the year	881	6,271	1,119	103	8,374	(6,271)	2,103

Six months ended 30 June, 2018

	Unaudited						
	USD thousand						
	Technology Information						
	IRI	BBT	NOM	Other	Sub total	Adjustments	Total
Segment revenue from external customers	166	54,513	8,402	-	63,081	(54,513)	8,568
Operating profit (loss)	(2,266)	(4,155)	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)	(3,666)	2,448	3,659	(440)	3,666	3,226
Income tax expenses (benefit)	(127)	547	(854)	-	(181)	(547)	(727)
Profit (loss) for the year	(2,754)	(3,119)	1,594	3,659	(620)	3,119	2,499

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Year ended 31 December 2017							
USD thousand							
	Technology Information				Sub total	Adjustments	Total
	IRI	BBT	NOM	Other			
Segment revenue from external customers	278	78,125	8,843	-	87,246	(78,125)	9,121
Operating profit (loss)	(3,817)	2,746	743	-	(328)	(2,746)	(3,074)
Share of profit (loss) of investments accounted for using the equity method	1,159	(1,650)	-	298	(193)	1,650	1,457
Gain on change in share of investments accounted for using equity method	123	-	-	-	123	-	123
Profit (loss) before income tax	(2,533)	1,424	742	298	(69)	(1,424)	(1,493)
Income tax expenses (benefit)	-	(9,684)	(330)	-	(10,014)	9,684	(330)
Profit (loss) from continued operations	(2,533)	(8,260)	412	298	(10,083)	8,260	(1,823)
Profit (loss) from discontinued operation	-	14,857	-	-	14,857	(14,857)	-
Profit for the year	(2,533)	6,597	412	298	4,775	(6,597)	(1,823)
Other segment items							
Finance income	2	1,615	-	-	1,617	(1,615)	2
Finance expense	-	(1,286)	(1)	-	(1,287)	1,286	(1)
Depreciation and amortization	-	(4,021)	(35)	-	(4,056)	4,021	(35)
Capital expenditure	-	11,865	247	-	12,112	(11,865)	247

30 June, 2017 (Unaudited)

USD thousand

	Technology Information				Adjustments	Total
	IRI	BBT	NOM	Other		
Segment assets	25,936	129,668	5,193	1,272	(129,668)	32,401

30 June, 2018 (Unaudited)

USD thousand

	Technology Information				Adjustments	Total
	IRI	BBT	NOM	Other		
Segment assets	20,745	177,418	6,786	5,526	(177,418)	33,057

31 December, 2017

USD thousand

	Technology Information				Adjustments	Total
	IRI	BBT	NOM	Other		
Segment assets	23,779	175,661	4,134	1,548	(175,661)	29,461

INTERNET RESEARCH INSTITUTE LTD
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 – SUBSEQUENT EVENTS

Initial public offering by issuance of new shares

In August 2018, the Company completed a first initial public offering ("IPO") and listing of its shares for trade on the Tel Aviv Stock Exchange Ltd. ("TASE"). On August 9, 2018, the trading in the Company's shares was commenced on TASE. The Company issued 11,715,800 ordinary shares for price of NIS 1.73 per share. As a result, the Company raised NIS 20,268 thousands. Net amounts received at the Company's bank account at subsequent events.

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

Below is transition from Japanese GAAP to IFRS at BBT as of and for the year ended 30 June 2017 and 2018. 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 30 June 2017
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	L	5,363,865	1,599,986	6,963,851	Cash and cash equivalents
Notes and accounts receivable-trade	L	1,222,822	(2,369)	1,220,453	Trade receivables
Marketable securities	L	1,599,986	(1,599,986)	-;-	-;-
Inventories		178,366	-;-	178,366	Inventories
Current assets-Others		381,169	-;-	381,169	Other current assets
Allowance for doubtful accounts	L	(2,369)	2,369	-;-	-;-
Total current assets		8,743,839	-;-	8,743,839	Total current assets
Non-current assets					Non-current assets
Property, plant and equipment	I	2,188,394	59,532	2,247,926	Property, plant and equipment
Intangible assets		75,448	-;-	75,448	Other intangible assets
Investment securities	G, L	1,830,363	(455,136)	1,375,227	Investment securities at fair value
-;-	L	-;-	1,375,454	1,375,454	Investments accounted for using the equity method
Lease and guarantee deposits		676,487	-;-	676,487	Lease and guarantee deposits
Non-current assets - Others		16,458	-;-	16,458	Other non-current assets
Total non-current assets		4,787,150	979,850	5,767,000	Total non-current assets
Total assets		13,530,989	979,850	14,510,839	Total assets

					JPY (In thousands)
					As of 30 June 2017
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		466,128	-;-	466,128	Trade payable
Short-term borrowings		1,384,668	-;-	1,384,668	Short-term borrowings

INTERNET RESEARCH INSTITUTE LTD
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JPY (In thousands)

As of 30 June 2017					
Presentation under J-GAAP	Note	Reported under Japanese GAAP	Effect of transition to IFRS	IFRS	Presentation under IFRS
Lease obligations		23,116	-;-	23,116	Obligation under finance leases-current
Accounts payable-other		180,026	-;-	180,026	Accruals and other payables
Income taxes payable		741,152	-;-	741,152	Income taxes payable
Advances received	H	246,564	121,706	368,270	Deferred revenue
Current liabilities-Others		208,581	-;-	208,581	Other current liabilities
Total current liabilities		3,250,236	121,706	3,371,942	Total current liabilities
Non-current liabilities					
Long-term borrowings		1,175,000	-;-	1,175,000	Long-term borrowings
Lease obligations		304,121	-;-	304,121	Obligation under finance lease
Asset retirement obligations		479,436	-;-	479,436	Asset retirement obligations
Deferred tax liabilities	D	114,997	42,855	157,852	Deferred tax liabilities
-;-	H	-;-	78,514	78,514	Deferred revenue
-;-	E	-;-	66,431	66,431	Other non-current liabilities
Total non-current liabilities		2,073,554	187,800	2,261,354	Total non-current liabilities
Total liabilities		5,323,790	309,506	5,633,296	Total liabilities
Equity					
Shareholders' equity					
Capital stock		2,370,701	-;-	2,370,701	Capital stock
Capital surplus		2,768,077	-;-	2,768,078	Capital surplus
Retained earnings	M	3,234,001	573,656	3,807,657	Retained earnings
Treasury shares		(259,690)	-;-	(259,690)	Treasury shares
Total shareholders' equity		8,113,090	573,656	8,686,747	Total shareholders' equity
Other comprehensive income					
Valuation differences of available-for-sale investments	G	720	97,103	97,823	Valuation differences of available-for-sale investments
Foreign currency translation adjustment		(52,870)	(415)	(53,285)	Foreign currency translation adjustment
Total other comprehensive income		(52,149)	96,688	44,538	Total other comprehensive income
Stock compensation		13,345	-;-	13,345	Stock compensation
Non-controlling interests		132,915	-;-	132,915	Non-controlling interests
Total equity		8,207,199	670,344	8,877,543	Total equity
Total liabilities and equity		13,530,989	979,850	14,510,839	Total liabilities and equity

JPY (In thousands)

As of 30 June 2018

INTERNET RESEARCH INSTITUTE LTD
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Presentation under J-GAAP	Note	Reported under Japanese GAAP	Effect of transition to IFRS	IFRS	Presentation under IFRS
Current assets					
Cash and cash equivalents	L	6,627,920	-;-	6,627,920	Cash and cash equivalents
Notes and accounts receivable-trade	G, L	1,476,944	(6,702)	1,470,242	Notes and accounts receivable-trade
-;-	C, 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
Non-current assets					
Property, plant and equipment	I, 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	B	615,207	(11,164)	604,043	Goodwill
Investment securities	C, K	1,597,125	(1,564,014)	33,111	Investments accounted for using the equity method
-;-	G, L	-;-	1,518,260	1,518,260	Financial assets at fair value through other comprehensive income
-;-	G, L	-;-	160,894	160,894	Financial assets at fair value through profit or loss
-;-	G, L	-;-	220,952	220,952	Financial assets at amortised cost
Lease and guarantee deposits	G	845,693	-;-	845,693	Other financial assets at amortised cost
-;-	D	-;-	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					
Accounts payable-trade	G	418,587	-;-	418,587	Trade payable
Short-term borrowings	G	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

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
Current liabilities-Others	L	729,101	(347,762)	381,339	Other current liabilities
Total current liabilities		4,347,263	82,167	4,429,430	Total current liabilities
Non-current liabilities					Non-current liabilities
Lease obligations		283,776	-;	283,776	Obligation under finance lease
Long-term borrowings	G, 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-non-current	D	488,745	32,731	521,476	Deferred tax liabilities
-;	H	-;	86,254	86,254	Contract liabilities-non current
Non-current liabilities - Others	E	102,152	94,830	196,982	Other non-current liabilities
Total non-current liabilities		4,706,274	187,040	4,893,314	Total non-current liabilities
Total liabilities		9,053,538	269,206	9,322,744	Total liabilities
Equity					Equity
Shareholders' 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

INTERNET RESEARCH INSTITUTE LTD
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Consolidated statement of income

JPY (In thousands)

Presentation under J-GAAP	Note	For the year ended 30 June 2017				IFRS	Presentation under IFRS
		Reported under Japanese GAAP	Effect of transition to IFRS	Reclassification into Discontinued Operations			
Net revenue	H	38,987,492	(14,693,129)	(16,859,693)	7,434,670	Revenue	
Cost of revenue	H, I	(32,382,949)	14,668,345	12,004,795	(5,709,809)	Cost of sales	
Gross profit		6,604,542	(24,784)	(4,854,898)	1,724,861	Gross profit	
Selling, general and administrative expenses	B, E	(5,758,024)	215,284	3,723,434	(1,819,306)	Selling, general and administrative expenses	
-;-	L	-;-	1,493,413	(1,445,757)	47,655	Other income	
-;-	L	-;-	(14,094)	798	(13,296)	Other expense	
Operating profit		846,518	1,669,819	(2,576,423)	(60,086)	Operating profit	
Non-operating income	L	78,551	(78,551)	-;-	-;-	-;-	
Non-operating expenses	L	(157,764)	157,764	-;-	-;-	-;-	
-;-	L	-;-	31,699	(161)	31,538	Finance income	
-;-	L	-;-	(173,419)	9,553	(163,866)	Finance expense	
-;-	C, L	-;-	248,440	(607,841)	(359,401)	Share of loss of investments accounted for using the equity method	
Ordinary profit		767,304	1,855,752	(3,174,872)	(551,815)	-;-	
Extraordinary income	L	1,542,833	(1,542,833)	-;-	-;-	-;-	
Extraordinary loss	L	(326,536)	326,536	-;-	-;-	-;-	
Profit before income taxes		1,983,601	639,456	(3,174,872)	(551,815)	Loss before income taxes	
Income taxes	D	(1,339,315)	(359,472)	1,026,353	(672,435)	Income taxes expense	
Profit after income taxes		644,286	279,984	(2,148,519)	(1,224,250)	Loss for the year	
Minority interest		(217,194)	(83,703)	-;-	(300,898)	Minority interest	
-;-	A	-;-	-;-	2,148,519	2,148,519	Gain from discontinued operations, net of taxes	
Profit attributable to owners of parent	L	427,092	196,280	-;-	623,372	Profit attributable to owner of parent	
Profit after income taxes		644,286	279,984	(2,148,519)	(1,224,250)	Loss for the year	
Reclassification of loss from discontinued operations		-;-	-;-	2,148,519	2,148,519	Reclassification of loss from discontinued operations	
Other comprehensive						Other comprehensive	

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JPY (In thousands)

For the year ended 30 June 2017						
Presentation under J-GAAP	Note	Reported under Japanese GAAP	Effect of transition to IFRS	Reclassification into Discontinued Operations	IFRS	Presentation under IFRS
income (loss), net of tax:						income (loss), net of tax:
Valuation difference on available-for-sale investment	G	17,949	(88,055)	-;-	(70,106)	Change in fair value of available-for-sale financial assets
Foreign currency translation adjustment		50,378	(415)	-;-	49,963	Foreign currency translation adjustment
Share of other comprehensive income of entities accounted for using equity method		245	-;-	-;-	245	Share of other comprehensive income of investments using the equity method
Total other comprehensive income, net of tax		68,572	(88,470)	-;-	(19,898)	Total other comprehensive loss, net of tax
Comprehensive income		712,858	191,514	-;-	904,372	Comprehensive income
Comprehensive income attributable to Owners of parent		495,457	107,811	-;-	603,268	Comprehensive income attributable to Owners of parent
Non-controlling interests		217,403	83,703	-;-	301,104	Non-controlling interests

JPY (In thousands)

For the year ended 30 June 2018

Presentation under J-GAAP	Note	Reported under Japanese GAAP	Effect of transition to IFRS	IFRS	Presentation under IFRS
Net revenue	H	10,731,529	(18,504)	10,713,025	Revenue
Cost of revenue	H, I	(7,852,886)	(424,034)	(8,276,920)	Cost of sales
Gross profit		2,878,642	(442,538)	2,436,104	Gross profit
Selling, general and administrative expenses	B, E	(2,958,854)	64,723	(2,894,131)	Selling, general and administrative expenses
-;-	L	-;-	306,788	306,788	Other income
-;-	L	-;-	(74,780)	(74,780)	Other expense
Operating loss		(80,212)	(145,807)	(226,019)	Operating loss
Non-operating income	L	175,503	(175,503)	-;-	-;-

INTERNET RESEARCH INSTITUTE LTD
 NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JPY (In thousands)

For the year ended 30 June 2018

Presentation under J-GAAP	Note	Reported under Japanese GAAP	Effect of transition to IFRS	IFRS	Presentation under IFRS
Non-operating expenses	L	(116,137)	116,137	-;-	-;-
-;-	C, L	-;-	176,525	176,525	Finance income
-;-	L	-;-	(28,999)	(28,999)	Finance expense
	L				Share of profit of investments accounted for using the equity method
-;-		-;-	133,066	133,066	
Ordinary profit		(20,846)	75,419	54,571	-;-
Extraordinary income	L	738,020	(738,020)	-;-	-;-
Extraordinary loss	L	(487,616)	487,616	-;-	-;-
Profit before income taxes		229,557	(174,986)	54,571	Profit before income taxes
Income taxes	D	(581,008)	222,341	(358,667)	Income taxes expense
Loss after income taxes		(351,451)	47,355	(304,096)	Loss for the year
Minority interest		21,357	(41,450)	(20,093)	Minority interest
Loss attributable to owners of parent	L	(330,093)	5,904	(324,189)	Loss attributable to owner of parent
Loss after income taxes		(351,451)	47,355	(304,096)	Loss for the year
Other comprehensive income, net of tax:					Other comprehensive income, net of tax:
Valuation difference on available-for-sale investment	G	-;-	172,831	172,831	Change in fair value of available-for-sale financial assets
Foreign currency translation adjustment		(8,481)	414	(8,067)	Foreign currency translation adjustment
Share of other comprehensive income of entities accounted for using equity method		(571)	-;-	(571)	Share of other comprehensive income of investments using the equity method
Total other comprehensive income, net of tax		(9,053)	173,246	164,194	Total other comprehensive loss, net of tax
Comprehensive income		(360,505)	220,602	(139,903)	Comprehensive income
Comprehensive income attributable to					Comprehensive income attributable to
Owners of parent		(339,147)	179,152	(159,995)	Owners of parent
Non-controlling interests		(21,357)	41,450	20,093	Non-controlling interests

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Acquisition of JapanCableCast Inc.

On 10 October 2017, BBT acquired 50.4% of the voting shares of JapanCableCast Inc. (“JCC”), an unlisted company based in Tokyo, Japan, specializing in providing dedicated platform services (video, voice, data delivery) and support of VNO setup/operation services to cable television operators. As a result of the acquisition, BBT obtained control, and JCC became consolidated subsidiaries of BBT. Before this transaction, JCC was treated as the investment accounted for using the equity method. BBT acquired JCC for the purpose of tightening the relationship with cable television industry in which the growth was expected as a critical social infrastructure in the era of the market change by accelerating next generation broadcasting and video delivery services such as a diffusion of 4K/8K high definition television services. The valuation of the fair values of the assets acquired and the liabilities assumed was completed in this quarter and remained unchanged as compared the preliminary assessment at the time of acquisition.

Assets acquired and liabilities assumed

The identifiable assets and liabilities of JCC, 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
Assets	
Cash and cash equivalents	2,858,439
Trade receivables	350,253
Inventories	70,485
Others	66,001
Property and equipment	947,108
Customer related asset	1,332,000
Other intangible assets	140,267
Other non-current asset	217,593
Total assets	5,982,146
Liabilities	
Trade payables	(173,460)
Other financial liabilities, current	(461,710)
Other financial liabilities, non-current	(1,141,620)
Deferred tax liabilities	(188,631)
Other liabilities	(704,319)
Total liabilities	(2,669,740)
Total identifiable net assets at fair value	3,312,406
Non-controlling interests	(1,646,683)
Goodwill	604,044
Total consideration	2,269,767

All consideration was paid in cash. The fair value of the trade receivables was JPY 350,253 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 604,044 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.

From the date of acquisition, JCC had contributed JPY 2,653,402 thousand to the revenue of BBT and had increased profit from continuing operations of BBT by JPY 151,452 thousand. If the business combination had taken place on 1 July 2017, revenue for BBT would have been JPY 11,539,210 thousand and the loss from continuing operations for BBT would have been JPY (206,884) thousand for the year ended 30 June 2018.

A) 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 reclassification as discontinued operations for the period ended 30 June 2017 is relating to the partial sale of the Company’s shareholding

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in its subsidiary BBF, Inc. on 30 June 2017.

B) 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.

No goodwill is recorded as at 30 June 2017 under both Japanese GAAP and IFRS due to the partial sale of the Company's shareholding in its subsidiary BBF, Inc, and JPY 604,044 thousand of goodwill is recorded under IFRS as at 30 June 2018. Goodwill as at 30 June 2018 is caused from the acquisition of JCC on 10 October 2017. Reconciliation of goodwill between Japanese GAAP and IFRS as at 30 June is as follow.

	JPY (In thousands)
	30 June 2018
Goodwill under Japanese GAAP	615,207
Reversal of amortization expense of goodwill under Japanese GAAP	32,379
GAAP adjustment from Japanese GAAP to IFRS as of 10 October related to JCC	(43,543)
Goodwill under IFRS	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 2018.

C) Discontinuing the use of the equity method

Under Japanese GAAP, an entity shall discontinue the use of the equity method from the date when its investment ceases to be an associate, and the entity measures the retained interest in the former associate at its costs in the consolidated financial statements.

Under IFRS, when an entity shall discontinue the use of the equity method, any investment retained in the former associate is re-measured at its fair value with any gain or loss recognized in profit or loss.

The Company sold a partial share of its 13.5% investment in BBF, Inc. on 14 December 2017. As a result, the Company's ratio of voting rights was dropped to 10.0% and was accounted for as available for sales for equity securities. The Company recorded gain as a result of discontinuation of equity method which result in financial income in the amount of JPY 133,337 thousand for the year ended 30 June 2018 under IFRS.

Following this transaction, JPY 740,741 thousand of BBF shares, which is measured at fair value, is classified to financial assets at fair value through other comprehensive income-current.

On 2 July 2018, the transfer of remaining 10.0% investment in BBF, Inc. was completed.

D) 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, nil and JPY 248,263 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 and 3) reclassified from the tax assets at current assets to non-current assets, also off set the deferred tax assets with the liabilities, as at 30 June 2017 and 2018, respectively.

E) 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. Additionally, obligations associated with special leave and remuneration that are granted based on specified years of service and which do not require recognition under Japanese GAAP are recognized and included in other non-current liabilities under IFRS.

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For the year ended 30 June 30 2017 and 2018, the expense relating to the unused paid absence at JPY 1,925 thousand and JPY 4,834 thousand are included as the adjustment from Japanese GAAP to IFRS, respectively. In addition, other non-current liabilities is increased by JPY 66,432 thousand and JPY 77,023 thousand, respectively, due to the adjustment from Japanese GAAP to IFRS.

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F) IFRS 9 Financial Instruments

As discussed in Note 2.2, the Company has applied IFRS 9 retrospectively and has determined not to restate the comparative information for the period beginning 1 January 2017. As a result, the comparative information is prepared based on the Company's previous accounting policies. On 1 January 2018, the Company has assessed which business models to apply to its financial assets and liabilities and classified such financial assets and liabilities in to appropriate classification under IFRS 9. The impacts of these classifications are as follows.

	JPY (In thousands)							
	Balance as of 1 January 2018 under IFRS 9				Impact by adoption of IFRS9			
	Balance at 1 January 2018 under IAS 39	Financial assets/liabilities at fair value through profit or loss	Financial assets/liabilities at FVOCI	Financial assets/liabilities at amortized cost	Total financial assets/liabilities	Fair value measurement at 1 January 2018	Provision at 1 January 2018	Total impacts
Financial assets								
Trade and other receivables								
Notes and accounts receivable - trade	1,478,475	-;-	-;-	1,478,475	1,478,475	-;-	-;-	-;-
Other financial assets, current								
Available-for-sales for equity securities	1,040,741	-;-	1,040,741	-;-	1,040,741	-;-	-;-	-;-
Other financial assets, non-current								
Available-for-sales for equity securities	1,399,874	72,041	1,102,057	225,776	1,399,874	-;-	-;-	-;-
Other financial assets at amortised cost (Lease and guarantee deposits)	876,474	-;-	-;-	876,474	876,474	-;-	-;-	-;-
Total	2,276,348	72,041	1,102,057	1,102,250	2,276,348	-;-	-;-	-;-

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		Balance as of 1 January 2018 under IFRS 9				Impact by adoption of IFRS9			
		Financial assets/liabilities at fair value through profit or loss	Financial assets/liabilities at FVOCI	Financial assets/liabilities at amortized cost	Total financial assets/liabilities	Fair value measurement at 1 January 2018	Provision at 1 January 2018	Total impacts	
JPY (In thousands)									
Financial liabilities									
Trade and other payables									
Financial liabilities measured at amortized cost									
	Trade payable	495,988	-;-	-;-	495,988	495,988	-;-	-;-	-;-
Other financial liabilities, current									
Financial liabilities measured at amortized cost									
	Short-term borrowings	1,899,980	-;-	-;-	1,899,980	1,899,980	-;-	-;-	-;-
Other financial liabilities non-current									
Financial liabilities measured at amortized cost									
	Long-term borrowings	2,728,610	-;-	-;-	2,728,610	2,728,610	-;-	-;-	-;-

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Following are the impacts on accumulated earnings and accumulated other comprehensive income by classification and measurement of financial assets at 1 January 2018.

	JPY (In thousands)	
	Retained earnings	Financial assets at FVOCI
Balance of accumulated earnings and accumulated OCI as of 1 January 2018 under IAS 39	3,297,080	222,364
Reclassification from available-for-sale financial assets to financial assets at FVOCI	326,657	(326,657)
Adjustment to shareholders' equity from adoption of IFRS 9	326,657	(326,657)
Balance of accumulated earnings and accumulated OCI as of 1 January 2018 under IFRS 9	3,623,737	(104,293)

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.

- 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 30 June 2017 and 2018 are as follows:

	JPY (In thousands)			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
As at 30 June 2017				
Assets				
Financial assets available for sale for equity securities	-;-	-;-	1,375,227	1,375,227
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

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

	Level 3 JPY (In thousands)
Balance at 1 July 2016	1,406,213
Additions of financial assets	409,987
Disposal of financial assets	(253,548)
Fair value gain/(loss) on valuation – carried to other comprehensive income	(63,237)
Impairment losses	(124,186)
Balance at 30 June 2017	1,375,227
Balance at 1 July 2017	1,375,227
Additions of financial assets	1,173,566
Disposal of financial assets	(773,039)
Transfer to investment in subsidiary	(195,850)
Fair value gain/(loss) on valuation carried to other comprehensive income	99,250
Balance at 30 June 2018	1,679,154

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

H) Revenue recognition

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 IAS18, with the exception of installation services. Under both IFRS 15 and former IAS18, 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 year ended 30 June 2017 and 2018 at JPY 12,970 thousand and JPY 18,504 thousand, respectively, decrease, and also the cost of sales for the year ended 30 June 2017 and 2018 decreased by JPY 65,955 thousand and JPY 76,761 thousand, respectively.

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 JPY3,140,973 thousand and JPY3,166,179 thousand for the year ended 30 June 2017 and 2018, respectively.

I) 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.

J) Subsequent event - Transfer of facilities of solar power plant in Hofu City, Yamaguchi Prefecture.

At the board of directors meeting held on 8 August 2018, a resolution was adopted to sell facilities of solar power plant in Hofu City, Yamaguchi Prefecture. Transfer Considerations amounted JPY 600,000 thousand.

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K) Loan covenants

Under the terms of the major borrowing, the Company is required to comply with certain financial covenants, and the Company has complied with these covenants throughout the reporting period.

L) Reclassification

a) Presentation of cash and cash equivalents

Under Japanese GAAP, cash and deposits and short-term marketable securities are separately presented on the balance sheet in accordance with the nature of the financial instrument. However, under IFRS, all of the financial instruments which meet the definition of cash and cash equivalents, are presented as cash and cash equivalents.

As a result, JPY 1,599,986 thousand included in the account of the marketable securities under Japanese GAAP is transferred into the cash and cash equivalent as at 30 June 2017, and no same adjustment is made as at 30 June 2018 since the Company does not have marketable securities under Japanese GAAP.

b) Deferred tax assets and liabilities

Under Japanese GAAP, deferred tax assets and liabilities are presented as current or non-current on the balance sheet determined based on the manner of generation. Under IFRS, all deferred taxes are presented as non-current assets/liabilities on the balance sheet.

As a result, nil and JPY 27,244 thousand of the deferred tax liabilities presented as Current liabilities – Others under Japanese GAAP is transferred to Deferred tax liabilities (Non-current), as at 30 June 2017 and 2018, respectively.

c) 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 2,369 and JPY 6,702 thousand included in the account of the allowance for doubtful accounts are transferred to Notes and accounts receivables – trade as at 30 June 2017 and 2018, respectively.

d) 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.

As a result, the investment accounted for using the equity method of JPY 1,375,454 and JPY 33,111 thousand included in the account of the investment securities are independently presented as at 30 June 2017 and 2018, respectively.

e) 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.

M) Retained earnings

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

	JPY (In thousands)	
	30 June 2017	30 June 2018
Reported under Japanese GAAP	3,234,001	2,133,962
Reversal of amortization of goodwill	550,854	32,379

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Changes in a parent's ownership interest which result in a loss of control	607,841	-;-
Deferred taxes	35,695	365,745
Unused paid absences	(117,262)	(77,022)
Impairment of Property, Plant & Equipment	59,532	(24,394)
Revenue recognition	(248,842)	(130,276)
Impairment of investment securities	(11,827)	(11,827)
Non-controlling interests	(185,592)	(79,551)
Adjustment of BBF disposal	(99,050)	-;-
Discontinuing the use of the equity method	-;-	688,617
Adjustment for application of Effective interest method	-;-	83,442
Effect of application of IFRS 9	-;-	340,136
Others	(17,693)	(73,846)
Reported under IFRS	3,807,657	3,247,365