

INTERNET RESEARCH INSTITUTE LTD

Interim Financial Reporting
(Unaudited)
30 June 2020

INTERNET RESEARCH INSTITUTE LTD
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	USD (In thousands)		
		30 June (Unaudited)	30 June (Unaudited)	31 December
		2019	2020	2019
ASSET				
CURRENT ASSETS				
Cash and cash equivalents		10,973	8,127	7,251
Trade receivables		703	83	360
Contract assets	4	41	146	332
Related parties	7	21	17	17
Income tax receivables		-;-	-;-	32
Other current assets		748	871	844
TOTAL CURRENT ASSETS		12,486	9,244	8,836
NON-CURRENT ASSETS				
Right-of-use assets		7,009	5,510	5,997
Investments accounted for using the equity method	5	16,360	14,661	13,894
Other financial assets		1,225	1,097	1,228
Property, plant and equipment		667	541	597
Intangible assets		293	233	265
Deferred tax assets		61	356	92
Other non-current assets		9	7	9
TOTAL NON-CURRENT ASSETS		25,624	22,405	22,082
TOTAL ASSETS		38,110	31,649	30,918
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Trade payable		2,638	173	487
Borrowings		(*)233	70	230
Accruals and other payables		1,999	1,470	1,740
Contract liabilities	4	807	4,419	2,784
Short-term lease liabilities		1,201	1,240	1,221
Related parties	7	(*)96	31	46
Current provisions		-;-	120	119
Income taxes payables		746	-;-	-;-
TOTAL CURRENT LIABILITIES		7,720	7,523	6,627
NON-CURRENT LIABILITIES				
Long-term lease liabilities		5,708	4,470	5,055
Asset Retirement Obligations		237	355	412
TOTAL NON-CURRENT LIABILITIES		5,945	4,825	5,467
TOTAL LIABILITIES		13,665	12,348	12,094
EQUITY				
Share capital		-;-	-;-	-;-
Capital surplus		14,845	14,845	14,845
Accumulated other comprehensive income		269	2,084	1,707
Exchange differences on translation from functional currency to presentation currency		1,991	1,959	1,693
Retained earnings		7,340	(580)	1,039
		24,445	18,308	19,284
Non- controlling interests		-;-	993	(460)
TOTAL EQUITY		24,445	19,301	18,824
TOTAL LIABILITIES AND EQUITY		38,110	31,649	30,918

*Re-Classified

INTERNET RESEARCH INSTITUTE LTD
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Note	USD (In thousands)		
		Six month period ended 30 June (Unaudited)		Year ended 31 December
		2019	2020	2019
Revenue		9,402	3,166	12,120
Operating costs and expenses:				
Cost of sales		(3,333)	(986)	(4,538)
Selling, general and administrative		(6,411)	(5,159)	(11,569)
Research and Development expenses		(900)	(895)	(1,743)
Other incomes		183	106	216
Total operating costs and expenses		<u>(10,461)</u>	<u>(6,934)</u>	<u>(17,634)</u>
Operating profit		<u>(1,059)</u>	<u>(3,768)</u>	<u>(5,514)</u>
Other expenses (Impairment)		(16)	-;	(18)
Finance income		-;	3	88
Finance expense		<u>(58)</u>	<u>(173)</u>	<u>(108)</u>
Finance income (expense), net		<u>(58)</u>	<u>(170)</u>	<u>(20)</u>
Share of profit(loss) of investments accounted for using the equity method	5	40	1,179	(2,791)
Gain on change in share of investments accounted for using equity method	5	1,423	468	1,849
Loss on sale of the investment in subsidiaries		-;	(40)	-;
Profit (Loss) before income taxes		<u>330</u>	<u>(2,331)</u>	<u>(6,494)</u>
Income tax expense		<u>(879)</u>	<u>290</u>	<u>(489)</u>
Profit (Loss) for the year		<u>(549)</u>	<u>(2,041)</u>	<u>(6,983)</u>
Profit (Loss) for the period attributable to:				
Owners of the parent		(549)	(1,619)	(6,850)
Non-Controlling interest		-;	(422)	(133)
Profit (Loss) for the year		<u>(549)</u>	<u>(2,041)</u>	<u>(6,983)</u>
Other comprehensive income, net of tax:				
<i>Items that may be reclassified to profit or loss</i>				
Share of other comprehensive income of investments accounted for using equity method	5	(4)	(1)	1
Differences from translation of financial statements from functional currency to presentation currency		504	155	270
Differences from translation of financial statements from functional currency to presentation currency		(8)	112	(72)
Change in fair value of available-for-sale financial assets		2	(125)	10
Share of other comprehensive income (loss) of investments accounted for using equity method	5	(81)	93	44
Total other comprehensive income, net of tax		<u>413</u>	<u>234</u>	<u>253</u>
Comprehensive income for the year		<u>(136)</u>	<u>(1,807)</u>	<u>(6,730)</u>
Attribution of the total loss for the year:				
Owners of the parent		(136)	(1,385)	(6,597)
Non-Controlling interest		-;	(422)	(133)
Total Loss for the year		<u>(136)</u>	<u>(1,807)</u>	<u>(6,730)</u>
Earnings per share attributable to owners of the parent				
Basic (USD)		(0.012)	(0.035)	(0.147)
Diluted (USD)		(0.012)	(0.035)	(0.147)

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

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

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

USD (In thousands)

Equity attributable to owners of the parent

	Note	Share capital	Capital surplus	Retained earnings	Accumulated other comprehensive income (loss)	Non-Controlling interest	Exchange differences on translation from functional currency to presentation currency	Total equity
Balance as of 1 January,2020		-;-	14,845	1,039	1,707	(460)	1,693	18,824
Loss for the period		-;-	-;-	(1,619)	-;-	(422)	-;-	(2,041)
Other comprehensive loss, net of tax		-;-	-;-	-;-	(32)	-;-	266	234
Total comprehensive income (loss) for the period		-;-	-;-	(1,619)	(32)	(422)	266	(1,807)
Transaction with owners and other								
Issuance of preferred shares by subsidiaries		-;-	-;-	-;-	-;-	1,836	-;-	1,836
Change in interest in subsidiaries		-;-	-;-	-;-	409	39	-;-	448
Balance as of 30 June,2020(Unaudited)		-;-	14,845	(580)	2,084	993	1,959	19,301

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)	Non-Controlling interest	Exchange differences on translation from functional currency to presentation currency	Total equity
Balance as of 31 December,2018	-;-	14,845	10,624	352	-;-	1,495	27,316
Adjustment on adoption of new accounting standards	-;-	-;-	(2,735)	-;-	-;-	-;-	(2,735)
Balance as of 1 January,2019 (restated)	-;-	14,845	7,889	352		1,495	24,581
Loss for the year	-;-	-;-	(6,850)	-;-	(133)	-;-	(6,982)
Other comprehensive loss, net of tax	-;-	-;-	-;-	55	-;-	198	252
Change in interest in subsidiaries	-;-	-;-	-;-	1,300	(327)	-;-	973
Balance as of 31 December,2019	-;-	14,845	1,039	1,707	(460)	1,693	18,824

INTERNET RESEARCH INSTITUTE LTD
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

		USD (In thousands)		
		Six months ended 30 June (Unaudited)		31 December
		2019	2020	2019
Note				
Cash flows from operating activities:				
	Profit before income taxes	330	(2,331)	(6,494)
	Depreciation and amortization	577	643	1,301
	Impairment loss of right-of-use assets	-;-	-;-	345#
	Loss on sale of the investment in subsidiaries	-;-	40	-;-
	Share of profit of investments accounted for using equity method	(40)	(1,179)	2,791
	Gain on change in share of investments accounted for using the equity method	(1,423)	(468)	(1,849)
	Finance income and finance expense, net	58	49	22
Change in assets and liabilities				
	Trade receivables	(629)	289	(299)
	Contract assets	226	186	(61)
	Trade payable	2,417	(326)	319
	Accruals and other payables	74	308	(267)
	Contract liabilities	(2,153)	1,606	(199)
	Current provisions	-;-	(60)	297
	Others	-;-	(110)	(343)
	Dividends received	102	104	206
	Interest received	-;-	-;-	4
	Interest paid	(58)	(49)	(108)
	Income taxes received (paid)	313	(350)	270
	Net cash provided by operating activities	(206)	(1,648)	(4,065)
Cash flows from investing activities:				
	Acquisitions of property, plant and equipment	(2)	(2)	(12)
	Acquisitions of intangible assets	(80)	0-0#	(282)
	Acquisition of Investment Securities	(9)	-;-	(7)
	Proceeds from sales of assets classified as investments accounted for using equity method	-;-	1,017	-;-#
	Acquisition of subsidiary, net of cash acquired	142	-;-	142
	Loans to related parties	(74)	-;-	-;-
	Acquisition of subsidiary, net of cash payments	-;-	(68)	-;-
	Proceeds from sales of shares of subsidiaries	-;-	96	-;-
	Proceeds from sales of investment securities	-;-	18	-;-
	Acquisition of other financial assets	(1)	-;-	(7)
	Net cash used in investing activities	(24)	1,061	(166)
Cash flows from financing activities:				
	Repayments of short-term financing liabilities	228	-;-	230
	Payments for borrowings	-;-	(193)	-;-
	Repayments of long-term financing liabilities	-;-	-;-	-;-
	Borrowings from related parties	6	-;-	-;-
	Repayments of obligations under finance leases	(521)	(609)	(1,110)
	Proceeds from share issuance to non-controlling shareholders	-;-	2,284	973
	Net cash provided by financing activities	(287)	1,482	93
Net change in cash and cash equivalents		(517)	895	(4,138)
Cash and cash equivalents at beginning of year		11,282	7,251	11,282
Capital fund from translation differences		208	(19)	107
Cash and cash equivalents at end of year		10,973	8,127	7,251

NOTE 1 – GENERAL INFORMATION, REORGANIZATION AND BASIS OF PRESENTATION

1.1 General Information

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

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

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

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

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

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

1.2 Turning the company into a private company:

In accordance with the Companies Law, 1999, the Securities Law, 1968 and the Securities Regulations, 2000 (Tender Offer Regulations), on July 12, 2020, IRI Acquisition Ltd. applied a request to purchase all the company's shares held by the public, in such a way that after the purchase the company will become a privately owned company of IRI Acquisition Ltd.

The tender offer is valid until September 10, 2020 and as of the date of approval of the financial statements, the offer has not yet been fully accepted.

1.3 Covid-19 implications:

The outbreak of the COVID-19 virus (hereafter, the "Corona virus") in the world in the first half of 2020 and its spread, as of the reporting date of this consolidated financial statements, causes great uncertainty in Israeli and Japanese markets, causing a significant upheaval in the global economy. In dealing with the outbreak of the Corona virus and attempting to curb its spread, widespread regulatory measures that significantly restrict people's mobility and public gathering are being taken in wide areas of the world, as well as in Israel and Japan.

As of the date of issuance of the financial reporting, a number of conferences that were expected to take place in Japan as part of Nano-opt Media Inc. ("NOM")'s activities in planning, organizing, producing and conducting conferences, exhibitions, seminars and other business events, including

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the Interop Conference which is NOM's main conference, were canceled due to the spread of Corona virus and the relevant authorities' guidelines in this regard.

As a result, a material negative effect on NOM's revenues occurred in the first half of 2020 and it resulted that NOM's revenues significantly decreased in the period as shown in Note 9. However, the impact on NOM's cash flow is smaller than the effect on its revenue, since advances paid for attending the conferences will not be refunded by NOM and clients will be credited with invitations to conferences next year, and because of the cost reduction due to the event cancellation.

In addition, given the uncertainty regarding the continued spread of the virus and the resulting regulatory restrictions, the Company's management estimates that there may be another significant impact on NOM's results in the current year, depending on the situation's duration, which the Company's management cannot estimate at this time.

According to the Company's management, BBT's operations were not significantly affected by the Corona virus.

In light of the above, the Board of Directors and the Company's management have approved a streamlining plan (hereinafter, the "Management Plan"), as follows:

1. Given the fact that IoT has operating losses (see Note 8), the Company will not continue financing IoT's activities from the Group's resources and will take actions to achieve external financing such as equity investment or loan to IoT.
2. Make efforts to reduce costs in the Group companies.
3. Partial realization of the Company's investment in BBT.
4. Apply for a special long-term loan by NOM, due to the impact of Corona virus, which is capped to 80 million JPY (which is equivalent to 739 thousand USD) from a Japanese government-controlled bank - Japan Finance Corporation (JFC). The loan funded by JFC is awarded to companies whose operations have been significantly damaged by the Corona virus impact. Company's management believes that the Company meets the loan criteria.

In the Company's management opinion, based on the management plan as stated above, the Company is able to meet its liabilities and the expected cash flow will enable the Company to finance its activities for the next twelve months ended 31 August 2021.

1.4 Terms

In this financial statements:

The Company, IRI Israel – Internet Research Institute Ltd.

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

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

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

IOT – IoT square, Inc., a private company, which was incorporated in Japan. IRI Japan holds 70% of the issued and paid up share capital of IOT.

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

BBT – BroadBand Tower, Inc., a public company incorporated in Japan, the shares of which are listed for trading on the Tokyo Stock Exchange, in which IRI Japan holds 18% of the issued and paid up share capital.

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

Stake holders and controlling interests – As defined in TASE ordinance

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Related Parties – As defined in IAS 24

The controlling shareholder - Dr. Hiroshi Fujiwara.

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NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

A.1 Basis of preparation

1) The consolidated condensed financial information of the Group as of June 30, 2020 and for the interim period of 6 months ended on the same date (hereinafter - the interim financial information) was prepared in accordance with International Accounting Standard No. 34 "Interim Financial Reporting" (hereinafter - IAS 34), and includes the additional disclosure required in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. The interim financial information does not include all the information and disclosures required in annual financial statements. The interim financial information should be read in conjunction with the annual financial statements for 2019 and the accompanying notes, which comply with the International Financial Reporting Standards, which are standards and interpretations published by the International Accounting Standards Board (hereinafter - IFRS) and include the additional disclosure required in accordance with the Securities (Annual Financial Statements) Regulations, 2010.

The unaudited interim financial statements that have been consolidated in the financial statements were approved by Mr. Hiroshi Fujiwara, Chairman of the Board and CEO, Mr. Miray Koruda, CFO, and Mr. Elhanan Harel, Director, on August 26, 2020.

The Group's revenues and the results of its operations for the period of the 6 months ended June 30, 2020, do not necessarily indicate the revenues and results that can be expected in the year ending December 31, 2020.

According to Regulation 38D of the Periodic and Immediate Reports Regulations, the Company has included separate financial statements in accordance with the Israel Securities Regulations (Periodic and Immediate Reports), from 1970.

A.2 Estimates

Preparation of interim financial statements requires the Group's management to exercise discretion, and also requires the use of accounting estimates and assumptions, which affect the implementation of the Group's accounting policies and the amounts of assets, liabilities, income and expenses reported. Actual results may differ from these estimates.

B. The main accounting policies and method of calculation, which were applied in the preparation of the interim financial information, are consistent with those used in the preparation of the Group's annual financial statements for 2019.

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NOTE 3 – FAIR VALUE MEASUREMENTS

Fair value hierarchy

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

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs are quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable, which reflect the reporting entity’s own assumptions that market participants would use in establishing a price.

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

(1) Fair value measurements by fair value hierarchy

Assets measured at fair values on a recurring basis in the Interim Consolidated Statement of Financial Position as of 30 June 2020, 30 June 2019 and 31 December 2019 are as follows:

	Level 1	Level 2	Level 3	Total
	USD (In thousands)	USD (In thousands)	USD (In thousands)	USD (In thousands)
As at 30 June 2020				
(Unaudited)				
Assets				
Financial assets at Fair value through profit and loss –equity securities			88	88
Financial assets at FVOCI	-;-	-;-	114	114
Total			202	202
As at 30 June 2019				
(Unaudited)				
Assets				
Financial assets at Fair value through profit and loss –equity securities			89	89
Financial assets at FVOCI	-;-	-;-	246	246
			335	335
As at 31 December 2019				
Assets				
Financial assets at Fair value through profit and loss –equity securities			87	87
Financial assets at FVOCI	-;-	-;-	252	252
			339	339

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

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	Financial assets at level 3
	USD (In thousands)
The six month period ended 30 June, 2020 (unaudited)	
Balance at 31 December 2019	339
Decrease due to sales	(15)
Fair value gain/(loss) on valuation	(124)
Translation differences	3
Balance at 30 June 2020 (unaudited)	<u>202</u>
The six month period ended 30 June, 2019 (unaudited)	
Balance at 31 December 2018	304
Increase due to acquisition of IoT	40
Fair value gain/(loss) on valuation	(35)
Translation differences	26
Balance at 30 June 2019 (unaudited)	<u>335</u>
The year ended 31, December, 2019 (audited)	
Balance at 31 December 2018	304
Purchases (**)	21
Fair value gain/(loss) on valuation	10
Translation differences	4
Balance at 31 December 2019	<u>339</u>

As at 30 June 2020, 30 June 2019 and 31 December 2019 financial assets at FVOCI comprise of equity instruments.

NOTE 4– Revenue from contracts with customers

4.1 Disaggregation of revenue from contracts with customers

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

4.2 Assets and liabilities related to contracts with customers

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

	USD thousand		
	31 December, 2019	30 June, 2019	30 June, 2020
Contract assets ⁽¹⁾	<u>332</u>	<u>41</u>	<u>146</u>
Contract liabilities ⁽²⁾	<u>2,784</u>	<u>807</u>	<u>4,419</u>

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- (1) Contract assets consist of “Costs to fulfil a contract” which is attributed to the host or the customer’s event in information services business.
- (2) Contract liabilities consist of “Unsatisfied performance obligations” which is related to information services business. The obligations will be satisfied within a year.

Amount of USD 683 thousand Out of the balance of USD 2,784 thousand of liabilities in respect of contracts with customers as of December 31, 2019, was completed in full during the six months ended June 30, 2020 and accordingly the Company recognized it as income.

NOTE 5– INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

1. General Information

Set out below are the associates of the Group as at 30 June 2020, 30 June 2019 and 31 December 2019. 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)	30 June 2019	31 December 2019		
BroadBand Tower, Inc.	• Computer plat form • AI solutions business • Media solutions business	20%	18%	19%	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 2020, 30 June 2019 and 31 December 2019 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)	30 June 2019	31 December 2019	Six months ended 30 June (Unaudited)		31 December 2019
	2019	2020	2019	2019	2020	2019
USD (In thousands)						
BroadBand Tower, Inc.	14,072	12,058	11,573	102	104	206
Mobile Internet Capital, Inc.	2,288	2,603	2,319	-;	-;	-;
	16,360	14,661	13,892	102	104	206

Quoted fair value of BroadBand Tower, Inc. as at 30 June, 2020, 30 June, 2019 and 31 December, 2019, are USD 21,056 thousand, USD 25,452 thousand and USD 26,905 thousand, respectively.

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

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As shown in the table above, during the six-month period ended 30 June 2020, the Company's ownership interest ratio has decreased mainly due to sale of a part of shares owned by the Company.

Impact from the change in ownership interest at BBT recorded as a gain on change in share of investments accounted for using the equity method in statement of income, due to the following contributions:

- Gain on sale on owner dilution in the holding percentage of BBT;
- Reclassification of a portion of BBT's accumulated OCI following such sale or dilution, and ;
- The company's share in equity movement in BBT not resulting from its comprehensive income.

As of 30 June 2020, the Company holds 18% of the voting rights, two directors of the Company are also designated as directors of this entity and they participate in all significant financial and operating decisions of the entity. The Group has therefore determined that it has significant influence over this entity.

- (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.

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
	2019	2020	2019
Current assets	102,927	81,488	81,075
Non-current assets	295,458	290,480	297,139
Total assets	398,385	371,968	378,214
Current liabilities	64,797	66,220	66,401
Non-current liabilities	230,434	201,374	215,842
Total liabilities	295,231	267,595	282,243
Total Net assets	103,154	104,374	95,971
Group's share in %	20%	18%	19%
Carrying amount	14,072	12,058	11,573

* Reclassified

	USD (In thousands)		
	Six months ended 30 June (Unaudited)		31 December
	2019	2020	2019
Revenue	64,741	75,744	131,001
Expense	63,437	71,437	144,872
Profit (loss) from continuing operations	1,304	4,306	(13,871)
Profit from discontinued operations *	-;-	-;-	-;-
Profit (Loss)	1,304	4,306	(13,871)
Profit (Loss) attributable to:			
Owners of the parent of the company	434	4,912	(14,778)
Non-controlling interests	870	(606)	906

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Other comprehensive income (loss)	366	406	1,307
Total comprehensive income (loss)	1,670	4712	(12,565)
Total comprehensive income (loss) attributable to:			
Owners of the parent of the company	(22)	5,672	(14,276)
Non-controlling interests	1,692	(960)	1,712

Individually immaterial associates*

	USD (In thousands)		
	Six months ended 30 June (Unaudited)		31 December
	2019	2020	2019
Aggregate carrying amount of individually immaterial associates	7,627	8,679	7,730
The investments in Mobile Internet Capital Inc.	2,288	2,603	2,319
Profit from continuing operations	(103)	884	63
Other comprehensive income	(87)	4	(93)
Total comprehensive income	(190)	888	(30)

1. 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
	2019	2020	2019
	USD (In thousands)		
Profit (loss) attributable to owners of BBT	434	4,912	(14,778)
Group's share in BBT %	20%	18%	19%
Share of profit (loss) of BBT	72	914	(2,810)
Profit attributable to owners of MIC	(103)	884	63
Group's share in MIC %	30%	30%	30%
Share of profit (loss) of MIC	(32)	265	19
Share of profit of investments accounted for using the equity method	40	1,179	(2,791)

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

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	Six months ended 30 June (Unaudited)		31 December
	2019	2020	2019
	USD (In thousands)		
Other comprehensive income (loss) attributable to owners of BBT	(539)	784	471
Group's share in BBT %	19.7%	17.9%	19%
Share of other comprehensive income (loss) of BBT, net of tax*	(68)	91	63
Other comprehensive income (loss) attributable to owners of MIC	(87)	4	(93)
Group's share in MIC %	30%	30%	30%
Share of Other comprehensive income (loss) of MIC, net of tax*	(17)	1	(18)
Share of other comprehensive income (loss) of investments accounted for using the equity method	(85)	92	45

- Deducting deferred taxes imputed to other comprehensive income in respect of investments in affiliated companies.

NOTE 6 – SEASONAL OPERATIONS

Due to the seasonal nature of the NOM segment, higher revenues and operating profits are usually expected in the three month period ended 30 June than other quarterly periods. This is mainly due to the fact that the Interop Tokyo, Email Security Expo & Conference as a biggest event operated by NANO OPT Media Inc. which is held in June every year. In the fiscal year ended 31 December 2019, 54% of revenues in the three month period ended 30 June was recorded in the NOM segment. Meanwhile, as discussed in Note 1.2, in the six month period ended 30 June 2020, the offline Interop Tokyo, Email Security Expo & Conference was cancelled due to the spread of Corona virus and the relevant authorities' guidelines.

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NOTE 7 – RELATED PARTY TRANSACTIONS

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

The directors are of the view that the following individuals and companies were related parties that had transactions or balances with the Group for the six-month periods ended 30 June 2019 and 2020, and the year ended 31 December 2019.

(a) BALANCES classified as related parties

	USD thousand		
	30-June (Unaudited)		31 December
	2019	2020	2019
Current assets			
Booked in the company and IRI Japan:			
-Prepaid expense to Internet Association Japan	-;-	1	-;-
-Trade Receivable to Broad band Tower, Inc.	-;-	8	-;-
-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.	21	21	21
-Allowance for Doubtful accounts to Unimo, Inc.	(21)	(21)	(21)
-Prepaid expense to Astro-Aerospace Ltd.	-;-	-;-	-;-
-Trade Receivable to Japan CableCast, Inc.	2	-;-	-;-
Booked in IoT Square, Inc.:			
-Trade Receivable to Broad band Tower, Inc.	8	-;-	8
-Prepaid expense to Broad band Tower, Inc.	11	8	9
Total	<u>21</u>	<u>17</u>	<u>17</u>
Non-current assets			
Booked in the company:			
Total	<u>-;-</u>	<u>-;-</u>	<u>-;-</u>
Current liabilities			
Booked in the company and IRI Japan:			
-Account payable to BroadBand Tower, Inc.	1	-;-	4
-Other payable for Hiroshi Fujiwara	15	15	15
-Other payable for key role personals	63	13	
-Advance payment from BroadBand Tower, Inc.	-;-	-;-	17
Booked in NANO OPT Media, Inc.:			
-Account payable to BroadBand Tower, Inc.	1	1	3
Booked in IoT Square, Inc.:			
-Trade Payable to Broad band Tower, Inc.	15	-;-	3
-Account payable for Broad band Tower, Inc.	1	2	4
-Short-term borrowings from Directors of the IoT Square, Inc.	-;-	-;-	-;-
Total	<u>96</u>	<u>31</u>	<u>46</u>

(*) less than thousand USD.

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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		
	30-June (Unaudited)		31 December
	2019	2020	2019
Booked in the company and IRI Japan:			
Transaction with Other Related Parties			
-Outsourcing cost to BroadBand Tower, Inc.	(5)	(6)	(11)
-Sales to BroadBand Tower, Inc.	-;	23	-;
-Purchase of common shares of IoT Square, Inc. from BroadBand Tower, Inc.	70	-;	71
-Sales to IoT Square, Inc.	-;	-;	-;
-Sales to Internet Association Japan	-;	-;	-;
-Revisions of contract amount in relation to sales transactions with Internet Association Japan	(49)	-;	(50)
-Payment of membership fee to Internet Association Japan	(2)	(1)	(2)
Booked in NANO OPT Media, Inc.			
Transaction with Other Related Parties			
-Sales to BroadBand Tower, Inc.	11	-;	11
-Sales to Japan CableCast, Inc.	1	-;	1
-Consulting fee to Astro Aerospace	-;	-;	-;
-Outsourcing cost to BroadBand Tower, Inc.	-;	-;	-;
Booked in IoT Square, Inc.:			
Transaction with Other Related Parties			
-Sales to BroadBand Tower, Inc.	-;	-;	-;
	107	109	108
-Short-term borrowings from Directors of the IoT Square, Inc.	228	-;	-;
-Sales to Remote Sensing Technology Center of Japan	9	9	9
-Outsourcing cost to BroadBand Tower, Inc.	(60)	-;	(63)
Total	<u>310</u>	<u>134</u>	<u>74</u>

(c) Key management compensation

The compensation paid or payable to key management for employee services is shown below:

	USD thousand		
	30-June (Unaudited)		31 December
	2019	2020	2019
Executive compensation	153	112	236
Total	<u>153</u>	<u>112</u>	<u>236</u>

NOTE 8 – BUSINESS COMBINATION

On 31 March 2020, the Company acquired a 51% controlling interest of the authorized and issued shares of Digit Inc. ("Digit"), which provides analytics services to enterprises in Japan in the HR field especially in business behavior assessment, mental health management and organization and strategic consulting. On 30 June 2020, the Company sold its entire shareholding in Digit, resulting in an insignificant loss on disposal. Digit's results were consolidated in the consolidated statement of income from its acquisition date through its disposal.

NOTE 9 – SEGMENT REPORTING

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

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

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

(a) Information technology, which includes two operating segments:

- (i) IRI Japan- it mainly provides consultancy services, research services and the reviewing of market trends in the field of internet technologies for companies, organizations and government institutions in Japan.
- (ii) BBT- it mainly provides data center services, cloud services, storage solutions, AI (artificial intelligence) solutions, dedicated platform services and support of 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. Revenue from a single external customers were approximately 14,668 thousands USD for six month ended 30 June 2019, 7,336 thousands USD for the three month ended 30 June 2019, 16,299 thousands USD for six month ended 30 June 2020, 7,746 thousands USD for the three month ended 30 June 2020 respectively.
- (iii) IoT- it mainly provides IOT solutions and consultation services in the field of data security, and the design and production of films and production services.

(b) Information service business

- (i) NOM – it mainly provides planning, organization, production and management of conferences, exhibitions, seminars and other business events in the fields of internet technology, hi-tech, cyber security, etc.

(c) Other

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

Six months ended 30 June 2020								
Unaudited								
USD thousand								
	Technology Information			NOM	Other	Sub total	Adjustments	Total
	IRI	BBT	IoT					
Segment revenues	175	75,738	159	2,700	23	78,795	(75,629)	3,166
Inter-segment revenues	-;-	6	136	-;-	-;-	142	(142)	-;-
Segment revenues	175	75,744	295	2,700	23	78,937	(75,771)	3,166
Operating profit (loss)	(1,059)	5,819	(1,505)	(1,022)	(182)	2,051	(5,819)	(3,768)
Loss the investment in subsidiaries	(40)	-;-	-;-	-;-	-;-	(40)	-;-	(40)
Share of profit (loss) of investments accounted for using the equity method	914	19	-;-	-;-	264	1,197	(19)	1,178
Gain on change in share of investments accounted for using equity method	468	-;-	-;-	-;-	-;-	468	-;-	468
Profit (loss) before income tax	(304)	5,272	(1,535)	(1,047)	83	2,469	(4,800)	(2,331)
Income tax expenses (benefit)	33	(966)	-;-	256	-;-	(677)	967	290
Profit (loss) for the year	(271)	4,306	(1,535)	(791)	81	1,792	(3,833)	(2,041)

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Year ended 31 December 2019

	USD thousand							
	Technology Information							
	IRI	BBT	IoT	NOM	Other	Sub total	Adjustments	Total
Segment revenues	139	130,001	1,154	10,841	-;-	143,135	(131,015)	12,120
Operating profit (loss)	(3,314)	(11,224)	(3,022)	823	-;-	(16,737)	(11,224)	(5,514)
Share of profit (loss) of investments accounted for using the equity method	(2,810)	(0)	-;-	-;-	19	(2,791)	0	(2,791)
Gain on change in share of investments accounted for using equity method	1,849	-;-	-;-	-;-	-;-	1,849	-;-	1,849
Profit (loss) before income tax	(6,886)	(11,630)	(3,067)	774	19	(20,790)	14,296	(6,494)
Income tax expenses (benefit)	8	(2,241)	(6)	(481)	(10)	(2,730)	2,241	(489)
Profit (loss) for the year	(6,878)	(13,871)	(3,073)	293	9	(23,520)	16,537	(6,983)
Other segment items	123	1,672	-;-	-;-	-;-	1,795	(1,708)	(87)
Finance income	(2,716)	(2,078)	(45)	(49)	-;-	(4,888)	4,781	(108)
Finance expense	(1,060)	(11,395)	(160)	(81)	-;-	(12,696)	(11,395)	(1,301)
Depreciation and amortization	7	35,139	5	282	-;-	35,433	(35,159)	292
Capital expenditure	123	1,672	-;-	-;-	-;-	1,795	(1,624)	(87)

30 June 2019 (Unaudited)

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

30 June 2020 (Unaudited)

	USD thousand						
	Technology Information						
	IRI	BBT	IOT	NOM	Other	Adjustments	Total
Segment assets	18,284	371,968	1,360	9,836	2,604	(372,403)	31,649

31 December 2019

	USD thousand						
	Technology Information						
	IRI	BBT	*IOT	NOM	Other	Adjustments	Total
Segment assets	18,748	378,214	986	9,288	2,319	(378,637)	30,918

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NOTE 10 – PRINCIPAL SUBSIDIARIES

General information

The table below includes subsidiary in which the Group's percentage of ownership changed during such period:

Name	Main business	% of ownership interest		
		30 June (Unaudited)		31 December
		2019	2020	2020
IoT Square, Inc.	Refer to Note 9	100%	71%	77%

IoT has become a subsidiary of the Company on 4 January 2019.

During the year ended 31 December, 2019, IoT issued new common shares through a third-party allotment. As a results, the Group's ownership interest in IoT decreased from 100% to 77% and recorded 1,300 thousands USD of Capital surplus and 327 thousand USD of Non-Controlling interest, respectively.

In addition, during the six month period ended 30 June 2020, IoT additionally issued new common shares through a third-party allotment. As a results, the Group's ownership interest in IoT decreased from 77% to 71% and recorded 409 thousands USD of Capital surplus and 39 thousand USD of Non-Controlling interest, respectively.

On April 10, 2020, an investment agreement has been signed between SBI Holdings ("SBI"), a Japanese financial services company that deals, inter alia, in the card field, and IoT as a subsidiary of the Group. Based on the agreement, SBI invested a total sum of JPY 200 million (which is equivalent to 2,337 thousand USD) in consideration to 5,000 A Preferred shares newly issued by IoT. Considering the term and conditions of the A Preferred shares, the Group determined to classify it into "Equity instruments" and recorded as "Non-controlling interests" in the interim condensed consolidated financial position. The A preferred shares can be converted to ordinary shares at any time when SBI exercises the conversion right. If the whole A preferred shares are converted to ordinary shares as of 30 June 2020, the Group ownership interest ratio decreased to 51%.

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

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

Below is transition from Japanese GAAP to IFRS at BBT as of and for the year ended 31 December 2019 and six month ended 30 June 2020 and 2019. Since BBT's financial information under Japanese GAAP is denominated in JPY, the reconciliation below is presented in thousands of JPY.

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Consolidated statement of financial position

JPY (In thousands)

As of 30 June 2019					
Presentation under J-GAAP	Note	Reported under Japanese GAAP	Effect of transition to IFRS	IFRS	Presentation under IFRS
Current assets					Current assets
Cash and cash equivalents		8,723,112	-;-	8,723,112	Cash and cash equivalents
Notes and accounts receivable-trade	J	1,859,664	(9,314)	1,850,350	Notes and accounts receivable-trade
Inventories		191,938	-;-	191,938	Inventories
Current assets- Others		519,249	(204,257)	314,992	Current assets – Others
Allowance for doubtful accounts	J	(9,314)	9,314	-	-;-
Total current assets		11,284,649	(204,257)	11,080,392	Total current assets
Non-current assets					Non-current assets
Property, plant and equipment	H	6,567,117	86,237	6,653,354	Property, plant and equipment
-;-	G	-;-	17,499,059	17,499,059	Right-of-use assets
Intangible assets		2,076,346	38,088	2,114,434	Intangible assets
Goodwill	B	639,454	18,787	658,241	Goodwill
Investment securities	E,J	2,121,319	(2,087,387)	33,932	Investments accounted for using the equity method
-;-	E	-;-	2,485,119	2,485,119	Financial assets at fair value through other comprehensive income
-;-	E	-;-	251,249	251,249	Financial assets at fair value through profit or loss
Lease and guarantee deposits		1,478,306	-;-	1,478,306	Other financial assets at amortised cost
Deferred tax assets	C	236,766	189,169	425,935	Deferred tax assets
Non-current assets- Others		159,983	47,286	207,269	Other non-current assets
Total non-current assets		13,279,291	18,527,607	31,806,898	Total non-current assets
Total assets		24,563,940	18,323,350	42,887,290	Total assets

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JPY (In thousands)

As of 30 June 2019					
Presentation under J-GAAP	Note	Reported under Japanese GAAP	Effect of transition to IFRS	IFRS	Presentation under IFRS
Current liabilities					Current liabilities
Accounts payable-trade		478,367	-;-	478,367	Trade payable
Short-term borrowings		1,919,726	-;-	1,919,726	Short-term borrowings
Lease obligations-current	G	36,100	3,013,219	3,049,319	Short-term lease liabilities
Accounts payable-other		460,090	-;-	460,090	Accruals, provisions and other payables
Income taxes payable		106,287	-;-	106,287	Income taxes payable
-;-	F	-	460,068	460,068	Contract liabilities
Current liabilities- Others	D,F	940,338	(438,604)	501,734	Other current liabilities
Total current liabilities		3,940,908	3,034,683	6,975,591	Total current liabilities
Non-current liabilities					Non-current liabilities
Lease obligations	G	292,233	15,503,699	15,795,932	Long-term lease liabilities
Long-term borrowings	I	6,506,708	(76,987)	6,429,721	Long-term borrowings
Asset retirement obligations		1,542,272	-;-	1,542,272	Asset retirement obligations
Deferred tax liabilities	C	502,571	71,867	574,438	Deferred tax liabilities
-;-	F	-	104,997	104,997	Contract liabilities-non current
Non-current liabilities – Others		289,487	70,049	359,536	Other non-current liabilities
Total non-current liabilities		9,133,271	15,673,625	24,806,896	Total non-current liabilities
Total liabilities		13,074,179	18,708,308	31,782,487	Total liabilities
Equity Shareholders' equity					Equity Shareholders' equity
Capital stock		3,032,125	-;-	3,032,125	Capital stock
Capital surplus		3,512,474	10,545	3,523,019	Capital surplus
Retained earnings	K	1,853,811	(558,920)	1,294,891	Retained earnings
Treasury shares		(87,662)	-;-	(87,662)	Treasury shares
Total shareholders' equity		8,310,748	(548,375)	7,762,373	Total shareholders' equity
Other comprehensive income					Other comprehensive income

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JPY (In thousands)

As of 30 June 2019					
Presentation under J-GAAP	Note	Reported under Japanese GAAP	Effect of transition to IFRS	IFRS	Presentation under IFRS
Valuation differences of available-for-sale investments	E	(10,339)	(39,888)	(50,227)	Valuation differences of financial assets at amortised cost
Foreign currency translation adjustment		(25,338)	-;	(25,338)	Foreign currency translation adjustment
Total other comprehensive income		(35,677)	(39,888)	(75,565)	Total other comprehensive income
Stock compensation		3,493	(3,493)	-;	Stock compensation
Non-controlling interests		3,211,197	206,798	3,417,995	Non-controlling interests
Total equity		11,489,761	(384,958)	11,104,803	Total equity
Total liabilities and equity		24,563,940	18,323,350	42,887,290	Total liabilities and equity

JPY(in thousand)

As of 31 December 2019					
Presentation under J-GAAP	Note	Reported under Japanese GAAP	Effect of transition to IFRS	IFRS	Presentation under IFRS
Current assets					Current assets
Cash and cash equivalents		5,914,296	-;	5,914,296	Cash and cash equivalents
Notes and accounts receivable - trade	J	2,121,401	(5,499)	2,115,902	Notes and accounts receivable - trade
Inventories		306,760	-;	306,760	Inventories
Current assets – Others		607,364	(146,158)	461,206	Current assets – Others
Allowance for doubtful accounts	J	(5,499)	5,499	-;	Allowance for doubtful accounts
Total current assets		8,944,322	(146,158)	8,798,164	Total current assets
Non-current assets					Non-current assets
Property, plant and equipment	H	8,458,443	(428,990)	8,029,453	Property, plant and equipment
-;	G	-;	15,694,574	15,694,574	Right-of-use assets
Intangible assets		2,395,199	7,386	2,402,585	Intangible assets
Goodwill	B	605,672	75,370	681,042	Goodwill
Investment securities	E,J	2,378,706	(2,362,464)	16,242	Investments accounted for using the equity method

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JPY (In thousands)

Presentation under J-GAAP	As of 31 December 2019				Presentation under IFRS
	Note	Reported under Japanese GAAP	Effect of transition to IFRS	IFRS	
-;-	E	-;-	3,119,187	3,119,187	Financial assets at fair value through comprehensive income
-;-	E	-;-	197,910	197,910	Financial assets at fair value through profit or loss
Deferred tax assets	C	101,282	298,922	400,204	Deferred tax assets - non current
Lease and guarantee deposits		1,335,438	-;-	1,335,438	Lease and guarantee deposits
Non-current assets – Others		163,956	204,543	368,499	Non-current assets – Others
Total non-current assets		15,438,696	16,806,438	32,245,134	Total non-current assets
Total assets		24,383,018	16,660,280	41,043,298	Total assets

JPY(in thousand)

Presentation under J-GAAP	As of 31 December 2019				Presentation under IFRS
	Note	Reported under Japanese GAAP	Effect of transition to IFRS	IFRS	
Current liabilities					Current liabilities
Accounts payable-trade		983,528	-;-	983,528	Trade payable
Short-term borrowings		1,820,736	-;-	1,820,736	Short-term borrowings
Lease obligations - - current	G	12,630	3,018,192	3,030,822	Obligation under finance leases – current
Accounts payable-other		322,018	-;-	322,018	Accruals, provisions and other payables
Income taxes payable		108,662	-;-	108,662	Income taxes payable
-;-	F	-;-	559,154	559,154	Contract liabilities
Others	D,F	922,730	(541,848)	380,882	Other current liabilities
Total current liabilities		4,170,304	3,035,498	7,205,802	Total current liabilities
Non-current liabilities					Non-current liabilities
Lease obligations	G	29,714	14,489,683	14,519,397	Obligation under finance leases
Long-term borrowings	I	5,893,430	(68,328)	5,825,102	Long-term borrowings
Asset retirement obligations		1,704,982	-;-	1,704,982	Asset retirement obligations

INTERNET RESEARCH INSTITUTE LTD
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JPY(in thousand)

Presentation under J-GAAP	Note	As of 31 December 2019			Presentation under IFRS
		Reported under Japanese GAAP	Effect of transition to IFRS	IFRS	
Deferred tax liabilities	C	592,369	113,140	705,509	Deferred tax liabilities - non current
-;-	F	-;-	306,589	306,589	Contract liabilities - non current
Non-current liabilities - Others		323,973	37,318	361,291	Other non-current liabilities
Total non-current liabilities		8,544,468	14,878,402	23,422,870	Total non-current liabilities
Total liabilities		12,714,772	17,913,900	30,628,672	Total liabilities
Equity Shareholders' equity					Equity Shareholders' equity
Capital stock		3,322,421	-;-	3,322,421	Capital stock
Capital surplus		3,809,480	12,777	3,822,257	Capital surplus
Retained earnings	K	1,226,728	(1,646,907)	(420,179)	Retained earnings
Treasury shares		(87,662)	-;-	(87,662)	Treasury shares
Total shareholders' equity		8,270,967	(1,634,130)	6,636,837	Total shareholders' equity
Other comprehensive income		-;-	-;-	-;-	Other comprehensive income
Valuation differences of available-for-sale investments	E	(5,235)	62,935	57,700	Valuation differences of available-for-sale investments
Foreign currency translation adjustment		(22,598)	-;-	(22,598)	Foreign currency translation adjustment
Total other comprehensive income		(27,833)	62,935	35,102	Total other comprehensive income
Non-controlling interests		3,425,112	317,575	3,742,687	Non-controlling interests
Total equity		11,668,246	(1,253,620)	10,414,626	Total equity
Total liabilities and equity		24,383,018	16,660,280	41,043,298	Total liabilities and equity

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JPY(in thousand)

As of 30 June 2020					
Presentation under J-GAAP	Note	Reported under Japanese GAAP	Effect of transition to IFRS	IFRS	Presentation under IFRS
Current assets					Current assets
Cash and cash equivalents		6,420,007	-;-	6,420,007	Cash and cash equivalents
Notes and accounts receivable - trade	J	1,712,252	(5,408)	1,706,844	Notes and accounts receivable - trade
Inventories		241,822	-;-	241,822	Inventories
Current assets - Others		464,186	(54,150)	410,036	Current assets – Others
Allowance for doubtful accounts	J	(5,408)	5,408	-;-	Allowance for doubtful accounts
Total current assets		8,832,859	(54,150)	8,778,709	Total current assets
Non-current assets					Non-current assets
Property, plant and equipment	H	8,183,915	(473,158)	7,710,757	Property, plant and equipment
-;-	G	-;-	14,641,178	14,641,178	Right-of-use assets
Intangible assets		2,295,122	6,386	2,301,508	Intangible assets
Goodwill	B	581,920	99,122	681,042	Goodwill
Investment securities	E,J	2,494,132	(2,475,840)	18,292	Investments accounted for using the equity method
-;-	E	-;-	3,231,607	3,231,607	Financial assets at fair value through comprehensive income
-;-	E	-;-	335,771	335,771	Financial assets at fair value through profit or loss
Deferred tax assets	C	84,480	278,022	362,502	Deferred tax assets - non current
Lease and guarantee deposits		1,331,685	-;-	1,331,685	Lease and guarantee deposits
Non-current assets - Others		141,086	537,970	679,056	Non-current assets – Others
Total non-current assets		15,112,340	16,181,058	31,293,398	Total non-current assets
Total assets		23,945,199	16,126,908	40,072,107	Total assets

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JPY(in thousand)

As of 30 June 2020					
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		575,718	-;-	575,718	Trade payable
Short-term borrowings		1,837,736	-;-	1,837,736	Short-term borrowings
Lease obligations - - current	G	12,274	3,002,100	3,014,374	Obligation under finance leases – current
Accounts payable-other		185,017	-;-	185,017	Accruals, provisions and other payables
Income taxes payable		140,308	-;-	140,308	Income taxes payable
-;-	F	-;-	758,547	758,547	Contract liabilities
Others	D,F	1,196,033	(573,813)	622,220	Other current liabilities
Total current liabilities		3,947,086	3,186,834	7,133,920	Total current liabilities
Non-current liabilities					Non-current liabilities
Lease obligations	G	23,558	13,127,841	13,151,399	Obligation under finance leases
Long-term borrowings	I	5,168,972	(59,395)	5,109,577	Long-term borrowings
Asset retirement obligations		1,693,071	-;-	1,693,071	Asset retirement obligations
Deferred tax liabilities	C	552,206	147,127	699,333	Deferred tax liabilities - non current
-;-	F	-;-	664,727	664,727	Contract liabilities - non current
Non-current liabilities - Others		335,213	40,766	375,979	Other non-current liabilities
Total non-current liabilities		7,773,020	13,921,066	21,694,086	Total non-current liabilities
Total liabilities		11,720,106	17,107,900	28,828,006	Total liabilities
Equity Shareholders' equity					Equity Shareholders' equity
Capital stock		3,331,331	-;-	3,331,331	Capital stock
Capital surplus		3,827,201	12,968	3,840,169	Capital surplus
Retained earnings	K	1,473,602	(1,421,689)	51,913	Retained earnings
Treasury shares		(87,670)	-;-	(87,670)	Treasury shares
Total shareholders' equity		8,544,464	(1,408,721)	7,135,743	Total shareholders' equity

INTERNET RESEARCH INSTITUTE LTD
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JPY(in thousand)

As of 30 June 2020					
Presentation under J-GAAP	Note	Reported under Japanese GAAP	Effect of transition to IFRS	IFRS	Presentation under IFRS
Other comprehensive income		-;-	-;-	-;-	Other comprehensive income
Valuation differences of available-for-sale investments	E	(11,779)	156,878	145,099	Valuation differences of available-for-sale investments
Foreign currency translation adjustment		(25,126)	-;-	(25,126)	Foreign currency translation adjustment
Total other comprehensive income		(36,905)	156,878	119,973	Total other comprehensive income
Non-controlling interests		3,717,534	270,851	3,988,385	Non-controlling interests
Total equity		12,225,093	(980,992)	11,244,101	Total equity
Total liabilities and equity		23,945,199	16,126,908	40,072,107	Total liabilities and equity

Consolidated statement of income

JPY (In thousands)

For the 6 month ended 30 June 2019					
Presentation under J-GAAP	Note	Reported under Japanese GAAP	Effect of transition to IFRS	IFRS	Presentation under IFRS
Net revenue	F	7,260,724	(137,428)	7,123,296	Revenue
Cost of revenue	F,G	(5,540,731)	621,117	(4,919,614)	Cost of sales
Gross profit		1,719,993	483,689	2,203,682	Gross profit
Selling, general and administrative expenses	B,D,G	(1,917,169)	(82,719)	(1,998,887)	Selling, general and administrative expenses
-;-	J	-;-	27,295	27,295	Other income
-;-	J	-;-	(17,662)	(17,662)	Other expense
Operating profit (loss)		(197,176)	410,603	213,428	Operating profit (loss)
Non-operating income	J	47,922	(47,922)	-;-	-;-
Non-operating expenses	J	(58,710)	58,710	-;-	-;-
-;-	J	-;-	141,346	141,346	Finance income
-;-	J	-;-	(104,733)	(104,733)	Finance expense
-;-	J	-;-	4	4	Share of profit of investments accounted for using the equity method
Ordinary profit (loss)		(207,964)	458,009	250,045	-;-
Extraordinary loss	J	(35,214)	35,214	-;-	-;-

INTERNET RESEARCH INSTITUTE LTD
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JPY (In thousands)

For the 6 month ended 30 June 2019

Presentation under J-GAAP	Note	Reported under Japanese GAAP	Effect of transition to IFRS	IFRS	Presentation under IFRS
Profit (loss) before income taxes		(243,178)	493,223	250,045	Profit (loss) before income taxes
Income taxes	C	(43,381)	(63,198)	(106,579)	Income taxes expense
Profit (loss) after income taxes		(286,559)	430,024	143,466	Profit (loss) for the year
Minority interest		(56,236)	(39,497)	(95,733)	Minority interest
Profit (loss) attributable to owners of parent		(342,795)	390,527	47,733	Profit (loss) attributable to owner of parent
Profit (loss) after income taxes		(286,559)	430,024	143,466	Profit (loss) for the year
Other comprehensive income, net of tax:					Other comprehensive income, net of tax:
Valuation difference on available-for-sale investment	E	(34,277)	80,002	45,726	Change in fair value of available-for-sale financial assets
Foreign currency translation adjustment		(5,506)	-;	(5,506)	Foreign currency translation adjustment
Total other comprehensive income (loss), net of tax		(39,783)	80,002	40,220	Total other comprehensive income (loss), net of tax
Comprehensive income (loss)		(326,342)	510,027	183,685	Comprehensive income (loss)
Comprehensive income attributable to					Comprehensive income attributable to
Owners of parent		(355,653)	353,226	(2,427)	Owners of parent
Non-controlling interests		29,311	156,800	186,112	Non-controlling interests

JPY (In thousands)

For the 6 month ended 30 June 2020

Presentation under J-GAAP	Note	Reported under Japanese GAAP	Effect of transition to IFRS	IFRS	Presentation under IFRS
Net revenue	F	8,683,041	(482,905)	8,200,136	Revenue
Cost of revenue	F,G	(6,564,698)	705,215	(5,859,483)	Cost of sales
Gross profit		2,118,343	222,310	2,340,653	Gross profit
Selling, general and administrative expenses	B,D, G	(1,730,399)	13,414	(1,716,985)	Selling, general and administrative expenses
-;	J	-;	13,599	13,599	Other income
-;	J	-;	(7,269)	(7,269)	Other expense

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JPY (In thousands)

For the 6 month ended 30 June 2020

Presentation under J-GAAP	Note	Reported under Japanese GAAP	Effect of transition to IFRS	IFRS	Presentation under IFRS
Operating profit (loss)		387,944	242,054	629,998	Operating profit (loss)
Non-operating income	J	44,039	(44,039)	-;-	-;-
Non-operating expenses	J	(37,034)	37,034	-;-	-;-
-;-	J	-;-	23,752	23,752	Finance income
-;-	J	-;-	(85,008)	(85,008)	Finance expense
-;-	J	-;-	2,050	2,050	Share of profit of investments accounted for using the equity method
Ordinary profit (loss)		394,949	175,843	570,792	-;-
Extraordinary income		660	(660)	-;-	-;-
Extraordinary loss	J	(57,138)	57,138	-;-	-;-
Profit (loss) before income taxes		338,471	232,321	570,792	Profit (loss) before income taxes
Income taxes	C	(79,313)	(25,279)	(104,592)	Income taxes expense
Profit (loss) after income taxes		259,158	207,042	466,200	Profit (loss) for the year
Minority interest		47,429	18,176	65,605	Minority interest
Profit (loss) attributable to owners of parent		306,587	225,218	531,805	Profit (loss) attributable to owner of parent
Profit (loss) after income taxes		259,158	207,042	466,200	Profit (loss) for the year
Other comprehensive income, net of tax:					Other comprehensive income, net of tax:
Valuation difference on available-for-sale investment	E	(44,996)	91,425	46,429	Change in fair value of available-for-sale financial assets
Foreign currency translation adjustment		(2,528)	-;-	(2,528)	Foreign currency translation adjustment
Total other comprehensive income (loss), net of tax		(47,524)	91,425	43,901	Total other comprehensive income (loss), net of tax
Comprehensive income (loss)		211,634	298,467	510,101	Comprehensive income (loss)
Comprehensive income attributable to					Comprehensive income attributable to
Owners of parent		296,793	317,238	614,031	Owners of parent
Non-controlling interests		(85,159)	(18,771)	(103,930)	Non-controlling interests

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A) Acquisition of TSS LINK, Inc.

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

Acquired assets and liabilities

The recognized assets and liabilities of TSS, which are generally measured at fair value at the date of acquisition, in accordance with IFRS, are as follows:

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

Detail of purchase consideration is as follow.

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

As of end of June 2019, the difference between the net book value and the acquisition price was recorded as goodwill, but due to the confirmation of accounting, intangible assets were recorded at 171,425 thousand yen and deferred tax liabilities of 52,490 thousand yen. On the other hand, goodwill decreased by 118,934 thousand yen. From the date of acquisition, TSS had contributed JPY 179,365 thousand to the revenue of BBT and had increased profit from continuing operations of BBT by JPY 30,278 thousand, for the 12 month ended 31 December 2019. Also, TSS had contributed JPY 66,978 thousand to the revenue of BBT and had increased profit from continuing operations of BBT by JPY 12,839 thousand, for the 6 month ended 30 June 2020. If the business combination had taken place on 1 January 2019, consolidated pro-forma revenue and loss from continuing operations of BBT would have been JPY 14,291,218 thousand and JPY 1,654,887 thousand for the 12 month ended 31 December 2019.

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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.

As a result, JPY 658,241 thousand, JPY 681,042 thousand and JPY 681,042 thousand of goodwill is recorded under IFRS as at 30 June 2019, 31 December 2019 and 30 June 2020, respectively. Goodwill arising from OCN acquisition is included as at 31 December 2019 and 30 June 2020.

Reconciliation of goodwill between Japanese GAAP and IFRS at 30 June 2019, 31 December 2019 and 30 June 2020 are as follow.

	JPY (In thousands)		
	30 June 2019	31 December 2019	30 June 2020
Goodwill under Japanese GAAP	639,455	605,672	581,920
Reversal of amortization expense of goodwill under Japanese GAAP	79,367	47,504	118,724
GAAP adjustment from Japanese GAAP to IFRS as of 10 October related to JCC	(60,581)	27,866	(19,602)
Goodwill under IFRS	658,241	681,042	681,042

The Company tests whether goodwill has suffered any impairment on an annual basis at every 31 December under IFRS. The recoverable amount of a cash generating unit (CGU) is determined based on the value-in-use calculations which require the use of the assumptions. The calculations use cash flow projections based on the financial budget covering a five-year period for JCC and a three-year period for OCN. Cash flows beyond each covering period are extrapolated using the estimated growth rates stated below. These growth rates are consistent with forecasts included in the industry reports specific to the industry in which each CGU operates.

When the recoverable amount of the CGU which includes goodwill is lower than the carrying amount of such CGU, an impairment loss is recognized.

	JCC	OCN
	Year ended 31 December 2019	Year ended 31 December 2019
Budgeted operating profit margin (%)	2.9%	5.7%
Long-term growth rate (%)	0%	0%
Pre-tax discount rate (%)	6.69%	7.33%

The Company's management has determined the values assigned to each of the above key assumptions as follows:

Assumption	Approach used to determining values
Budgeted operating profit margin (%)	Based on past performance and management's expectations for the future.
Long-term growth rate (%)	This is the weighted average growth rate used to extrapolate cash flows beyond the budgeted period. The rates are consistent with forecasts included in the industry report.
Pre-tax discount rate (%)	Reflect specific risks relating to the relevant CGU.

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 31 December 2019.

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Due to the expansion of Corona virus, the number of cancellations of cable TV viewing contracts has not increased particularly. As a result, the decrease in revenue of JCC and OCN is insignificant, and no additional cost for Corona virus measures has been incurred. Therefore, the expansion of Corona virus has no particular impact on the profitability of JCC and OCN, and there is no indication of potential impairment at 30 June 2020.

C) 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, JPY 189,169 thousand, JPY 298,922 thousand and JPY 278,022 thousand of deferred tax assets are adjusted as the 1) 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) off set the deferred tax assets with the liabilities, as at 30 June 2019, 31 December 2019 and 30 June 2020, respectively.

D) Unused paid absences

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

For the 6 month ended 30 June 2019 and 2020, the expense relating to the unused paid absence at JPY 50,057(expense) thousand and JPY 27,292(expense) thousand are included as the adjustment from Japanese GAAP to IFRS, respectively. In addition, others in the current liability as at 30 June 2019, 31 December 2019 and 30 June 2020 are increased by JPY 103,824 thousand, JPY 48,799 thousand and JPY 76,090 thousand, respectively, due to the adjustment from Japanese GAAP to IFRS.

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E) 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 2019, 31 December 2019 and 30 June 2020 are as follows:

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

	JPY (In thousands)			
	Level 1	Level 2	Level 3	Total
As at 31 December 2019				
Assets				
Financial assets at fair value through other comprehensive income	-;-	-;-	3,119,187	3,119,187
Financial assets at fair value through profit or loss	-;-	-;-	197,910	197,910
Total	-;-	-;-	3,317,097	3,317,097

	JPY (In thousands)			
	Level 1	Level 2	Level 3	Total
As at 30 June 2020				
Assets				
Financial assets at fair value through other comprehensive income	-;-	-;-	3,231,607	3,231,607
Financial assets at fair value through profit or loss	-;-	-;-	335,771	335,771
Total	-;-	-;-	3,567,378	3,567,378

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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 January 2019	2,498,769
Additions of financial assets	396,333
Disposal of financial assets	(222,000)
Fair value gain/(loss) through other comprehensive income	(51,703)
Fair value gain/(loss) through profit or loss	120,724
Others	(5,755)
Balance at 30 June 2019	2,736,368
Balance at 1 January 2019	2,498,769
Additions of financial assets	686,740
Disposal of financial assets	(222,000)
Fair value gain/(loss) through other comprehensive income	193,133
Fair value gain/(loss) through profit or loss	158,112
Others	2,343
Balance at 31 December 2019	3,317,097
Balance at 1 January 2020	3,317,097
Additions of financial assets	187,460
Disposal of financial assets	-;
Fair value gain/(loss) through other comprehensive income	62,784
Fair value gain/(loss) through profit or loss	37
Others	-;
Balance at 30 June 2020	3,567,378

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

F) Revenue recognition

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

1) Computer platform business

Main component in the computer platform business is data center business, consisting primarily of 1) colocation, which includes the licensing of cabinet space and power; (2) interconnection offerings; (3) managed infrastructure solutions. The remainder of the revenues are from non-recurring revenue streams, such as installation revenues, professional services and equipment sales. Under the revenue accounting guidance under IFRS15, revenues are recognized when control of these products and services is transferred to its customers, in an amount that reflects the consideration it expects to be entitled to in exchange for the products and services. Revenues from recurring revenue streams are generally billed monthly and recognized ratably over the term of the contract, generally one to three years for data center customers. Non-recurring installation fees, although generally paid upfront upon installation, are deferred and recognized ratably over the average customer relationship periods. Professional service fees and equipment sales are recognized in the period when the services were provided.

2) IoT/AI solution business

IoT/AI solution business mainly supports contact centers and help desks operators through natural language analysis technology. Under the revenue accounting guidance under IFRS15, revenues are recognized when control of these services is transferred to its customers, in an amount that reflects the

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consideration it expects to be entitled to in exchange for the services. Revenue from the services are recognized in the period when the services were provided.

3) Media solution business

Media solution business provides the telecommunications network business for cable television operators and program suppliers throughout Japan. The remainder of the revenues are from non-recurring revenue streams, such as installation revenues, professional services and equipment sales. Under the revenue accounting guidance under IFRS15, revenues are recognized when control of these products and services is transferred to its customers, in an amount that reflects the consideration it expects to be entitled to in exchange for the products and services. Revenues from recurring revenue streams are generally billed monthly and recognized ratably over the term of the contract, generally one to three years for cable television operators and program suppliers. Non-recurring installation fees are recognized in the period when the services were provided.

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

However, under IFRS 15, which has been adopted from 1 January 2018, the Company recognize revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset. The Company has concluded that the current methods of revenue recognition and measurement under Japanese GAAP are in accordance with both IFRS 15 and former 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 6 month ended 30 June 2019 decreased by JPY 84,721 thousand and the revenue for the 6 month ended 30 June 2020 decreased by JPY 482,905 thousand. Also the cost of sales for the 6 month ended 30 June 2019 decreased by JPY 37,278 thousand and the cost of sales for the 6 month ended 30 June 2020 decreased by JPY 432,305 thousand.

The Company has provided the services to various customers. In the computer platform business of BBT, Yahoo Japan Corporation is the largest customer for more than 10 percent of total segment revenue under J-GAAP at JPY 1,624,095 thousand and JPY 1,764,604 thousand for the 6 month ended 30 June 2019 and 2020, respectively.

G) Lease

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

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

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

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

- Accounted operating leases with less than 12 months of lease term remaining as of 1 January 2019 for as short-term leases and low value leases.

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- Used hindsight when determining the lease term of contract including extension options and/or termination options.
- By class of underlying asset, not to separate non-lease components from lease components, and instead accounts for each lease component and any associated non-lease components as a single lease component.

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

	JPY(in thousands)
Commitments for operating lease as of 31 December 2018 as disclosed in the Group's consolidated financial statements	18,057,304
Discounted using the group's incremental borrowing rate of 0.51%	(713,862)
Add: finance lease liabilities recognized as at 31 December 2018	296,975
(Less): short term leases and low value leases recognized on straight-line basis as expense	(26,239)
Add: adjustments as a result of different treatment of extension and termination options	17,726
Lease liabilities recognized at 1 January 2019	17,631,904
Current lease liabilities	3,019,815
Non-current lease liabilities	14,612,089

As a result of above, the Group recognized JPY 15,678,935 thousand for the right-of-use assets, the amount of impairment was JPY 1,476,841 thousand, and JPY 17,334,928 thousand for the lease liabilities, in the annual condensed consolidated financial position as of 1 January 2019. As at 30 June 2019, 31 December 2019 and 30 June 2020, the Group's right-of-use assets consist almost entirely of Buildings.

Due to the adoption of IFRS 16, cost of revenue and rent expense which included operating lease expenses decreased by JPY 1,347,231 thousand and 205,064 thousand, respectively for the period ended 30 June 2020. The depreciation and amortization expenses which included the depreciation expenses of right-of-use assets, and finance costs which included interest expenses for lease liabilities increased by JPY 1,248,951 thousand and JPY 47,793 thousand, respectively for the period ended 30 June 2020.

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

The Group, as a lessee, mainly leases properties. Lease contracts are normally entered into the fixed term from 1 years to 15 years.

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

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

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

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

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

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

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

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

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

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

H) 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.

D) Loan covenants

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

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

2) The ordinary loss recorded in the consolidated statement of income at the end of the fiscal year ended 31 December 2020 and every subsequent fiscal year-end thereafter shall not be recorded for the second consecutive year.

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

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

J) Reclassification

a) Allowance for doubtful accounts

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

As a result, JPY 9,314 thousand, JPY 5,499 thousand and JPY 5,408 thousand included in the account of the allowance for doubtful accounts are transferred to Notes and accounts receivables – trade as at 30 June 2019, 31 December 2019 and 30 June 2020, respectively.

b) Investment securities

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

As a result, the investment accounted for using the equity method of JPY 16,262 thousand, JPY 16,242 thousand and JPY 18,292 thousand included in the account of the investment securities are independently presented as at 30 June 2019, 31 December 2019 and 30 June 2020, respectively.

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

Under Japanese GAAP, non-operating income and expense are presented below operating profit. These accounts consist of financial income and expense, foreign exchange gain (loss), profit (loss) under equity method investment and others. In addition, exceptional items are required to be presented as

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“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.

K) Retained earnings

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

	30 June 2019 JPY (in thousand)	31 December 2019 JPY (in thousand)	30 June 2020 JPY (in thousand)
Reported under Japanese GAAP	1,853,811	1,226,728	1,473,602
Reversal of amortization of goodwill	79,368	101,470	118,724
Amortization of customer relationship asset	(7,389)	-;	-;
Deferred taxes	205,955	364,404	336,878
Unused paid absences	(83,637)	(28,612)	(55,903)
Impairment of Property, Plant & Equipment (include effect of application of IFRS 16)	(901,274)	(2,335,102)	(2,082,369)
Revenue recognition	(44,204)	(120,951)	(171,550)
Impairment of investment securities	(11,828)	(11,828)	(11,828)
Non-controlling interests	(95,096)	(141,474)	(133,735)
Adjustment for application of Effective interest method	77,654	69,986	62,047
Effect of application of IFRS 9	397,460	452,202	463,033
Provision for unfavorable contract	(44,100)	-;	-;
Employee benefit obligation	(34,722)	-;	-;
Others	(97,107)	2,998	53,014
Reported under IFRS	1,294,891	(420,179)	51,913