# Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending September 30, 2020 (FY9/20) (Six Months Ended March 31, 2020) [IFRS]

June 12, 2020

| | | | |
|---|---|---|---|
| Company name: | AirTrip Corp. | Stock Exchange Listing: | TSE |
| Stock code: | 6191 | URL | https://www.airtrip.co.jp |
| Representative: | Yusuke Shibata, Representative Director, President and CFO | | |
| Contact: | Yusuke Shibata, Representative Director, President and CFO | | TEL: +81-(0)3-3431-6191 |
| Scheduled date of filing of Quarterly Report: | June 17, 2020 | Scheduled date of payment of dividend: | — |

Preparation of supplementary materials for quarterly financial results: Yes

Holding of quarterly financial results briefing: Yes (for institutional investors and securities analysts)

(All amounts are rounded down to the nearest million yen)

## 1. Consolidated Financial Results for the Second Quarter (October 1, 2019 to March 31, 2020) of FY9/20

(1) Consolidated results of operations (Percentages represent year–on–year changes.)

| | Net sales | | Operating income | | Profit before income taxes | | Profit | | Profit attributable to owners of parent | | Total comprehensive income | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % |
| Six months ended Mar. 31, 2020 | 15,383 | 44.5 | △660 | − | △759 | - | △779 | - | △741 | - | △791 | - |
| Six months ended Mar. 31, 2019 | 10,643 | 208.5 | 178 | △77.4 | 140 | △82.2 | 152 | △74.4 | 78 | △84.7 | 145 | △74.8 |

| | Profit per share | Fully diluted profit per share |
|---|---|---|
| | Yen | Yen |
| Six months ended Mar. 31, 2020 | △37.14 | △37.14 |
| Six months ended Mar. 31, 2019 | 4.31 | 4.16 |

(2) Consolidated financial position

| | Total assets | Total equity | Equity attributable to owners of parent | Ratio of equity attributable to owners of parent |
|---|---|---|---|---|
| | Millions of yen | Millions of yen | Millions of yen | % |
| As of Mar. 31, 2020 | 34,821 | 9,607 | 9,260 | 26.5 |
| As of Sep. 30, 2019 | 31,216 | 10,101 | 9,719 | 31.0 |

## 2. Dividends

| | Dividend per share | | | | |
|---|---|---|---|---|---|
| | 1Q-end | 2Q-end | 3Q-end | Year-end | Total |
| | Yen | Yen | Yen | Yen | Yen |
| Fiscal year ended Sep. 30, 2019 | — | 0.00 | — | 10.00 | 10.00 |
| Fiscal year ending Sep. 30, 2020 | — | 0.00 | | | |
| Fiscal year ending Sep. 30, 2020 (Estimated) | | | — | — | — |

Note: Revision to the most recently announced dividend forecast: None

## 3. Full-year financial forecast for FY9/20 (October 1, 2019 – September 30, 2020)

The full-year financial forecast has yet to be determined because the environment surrounding the Company has changed dramatically due to COVID-19, making it very difficult to forecast the full-year financial results at the present time.

The Company will carefully assess the impact on its financial results and promptly make an announcement when it is possible to make a reasonable forecast.

## * Notes

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in scope of consolidation) : None

Newly included: – companies Excluded: – companies

(2) Changes in accounting policies and accounting-based estimates, and restatements

1) Change of the accounting policy required under IFRS : None

2) Changes in accounting policies other than 1) above : None

3) Changes in accounting-based estimates : None

(3) Numbers of outstanding shares (common stock)

| | | | | |
|---|---|---|---|---|
| 1) Number of shares outstanding as of the end of the period (including treasury shares) | As of Mar. 31, 2020 | 20,115,300 | As of Mar. 31, 2019 | 19,801,300 |
| 2) Number of treasury shares as of the end of the period | As of Mar. 31, 2020 | 35 | As of Sep. 30, 2019 | 35 |
| 3) Average number of shares issued during the period | Six months ended Mar. 31, 2020 | 19,956,777 | Six months ended Mar. 31, 2019 | 18,140,989 |

* The financial report is exempt from the audit procedures performed by certified public accountants or audit corporations.

## * Explanation of appropriate use of earnings forecasts, and other special items

The consolidated financial forecast for the fiscal year ending September 30, 2020 has yet to be determined due to the difficulties of making a reasonable calculation of the forecast due to the COVID-19 pandemic.

○Contents of Attachments

## 1. Qualitative Information on Quarterly Consolidated Financial Performance
### (1) Explanation of Results of Operations

During the first six months of the fiscal year under review, the Japanese economic outlook was uncertain due to the stagnation of economic activity caused by the COVID-19 pandemic, as well as the trade tensions between the US and China and economic slowdown in China and Europe seen since the previous fiscal year.

In the travel industry, the number of foreign visitors to Japan in the period from January to March 2020 dropped 51.1% from the same period of the previous year and the number of Japanese citizens who left Japan in the same period fell 39.6% year on year, according to the statistics released by the Japan National Tourism Organization (JNTO). These figures reflect the international travel restrictions, lockdowns and other measures introduced by many countries due to the COVID-19 pandemic as well as the measures taken in Japan, such as stricter quarantine and the invalidation of visas, and travel demand is currently stagnating all over the world. The Company believes it is necessary to monitor future market trends as well as developments in the COVID-19 pandemic.

Under these conditions, the Company continued expanding its operations by seeking to diversify its service lines with a focus on sales of domestic airline tickets and international airline tickets as an online travel agency and investing in advertising to raise recognition of its main brand AirTrip. The Company also continued to enhance its services for foreign visitors to Japan, making the most of its online travel business expertise.

In the IT Offshore Development Business, which was launched in 2012, the Company steadily won customers in numerous business categories and increased the number of engineers employed, focusing on the development of lab-type facilities in Vietnam. The number of engineers hired grew to 1,000 as of the end of December 2019. In the Investment Business, which has been developing in earnest since the stock was listed, the Company has been investing in growing companies. As of the end of March 2020, the Company has invested in 64 companies.

In this business environment, during first six months of the fiscal year under review, the Group achieved consolidated net sales of 15,383 million yen, a consolidated operating loss of 660 million yen, a consolidated loss before income taxes of 759 million yen, and a consolidated loss attributable to owners of parent of 741 million yen.

Operating results by segment are as follows.

(1) Online Travel Agency Business

The Group offers the following five services in the Online Travel Agency Business segment.

・BtoC services (operation of PC and smartphone websites for selling travel commodities directly to general consumers)

The Company implemented measures such as conducting mass marketing, strengthening SEM and overhauling its backbone systems to acquire new customers and improving user interfaces to increase the number of repeat customers. These contributed to a steady increase in the number of service users.

The recognition of the Company's brand AirTrip increased, and strategic pricing and the active input of branding costs were conducted to acquire customers.

・BtoBtoC services (travel content provision under brands owned by business partners)

The enhanced development of alliances with major partners, the provision of services to match the needs of major partners, and enhanced communication with partners contributed to an increase in service use. In addition, like the BtoC services, measures for marketing and alliances with an emphasis on increasing customer numbers were promoted.

・BTM services (centralized management of internal approval procedures and arrangements associated with corporate business trips)

These services basically adopt a business model under which net sales expand in a manner that is linked with an increase in the number of corporate customers and a rise in their usage rate. The services achieved growth attributable to initiatives taken by the Group, including the addition of salespeople and the identification of existing customers who used the services at a relatively low rate.

・Services for foreign visitors (business of providing various BtoC services to visitors to Japan)

The Company offers various services for foreign visitors to Japan, including Wi-Fi rental, camping car rental, currency exchange and web media serves. In every business line, net sales and income grew steadily due to an increase in visitors to Japan, multilingual customer service and stronger marketing.

・Life innovation businesses and services

The Company is leveraging the knowledge of various travel-related services it has built up through its AirTrip brand to launch new business lines aimed at improving convenience in many different aspects of customers' lives. Current business lines include e-mail magazines, the manufacture, sale and rental of travel carry cases, and the tea-processing business, and life innovation businesses and services are expected to expand significantly in the future with the addition of new services.

As a result of the factors stated above, net sales for the Online Travel Agency Business segment amounted to 14,295 million yen, and segment income came to 223 million yen in the first six months of the fiscal year under review.

(2) IT Offshore Development Business

In the IT Offshore Development Business segment, the Group offers lab-type facility development services to customers consisting mainly of e-commerce operators, web solution providers, and game and system developers in Ho Chi Minh, Hanoi and Da Nang in Vietnam.

The Company's lab-type facility development model is distinctive in that a team is formed with new dedicated staff members hired for each customer. The model also enables customers to confirm the state of lab-type facility development on demand. The Company assumes the assignment of dedicated staff members to each team on a medium- to long-term basis. For that reason, the success or failure of development depends on employing workers suited to customer demands and motivating the respective engineers more.

In addition, these services basically adopt a business model under which customers are billed on the basis of man-months and the number of workers. The number of engineers supplied to clients and the man-months affect net sales for them significantly. An increase in the number of engineers and a rise in the unit cost due to development streamlining contributed to sales growth in the fiscal year under review.

As a result of the factors stated above, net sales for the IT Offshore Development Business segment reached 1,016 million yen, and segment income totaled 53 million yen.

(3) Investment Business

In the Investment Business segment, the Group emphasizes synergies with the existing businesses and expands service lines through aggressive M&A and capital alliances. The Group is pursuing investment in growing companies to improve profitability. At the end of the second quarter under review, the Group had increased the number of companies in which it invests to .

As a result, net sales for the Investment Business segment stood at 71 million yen, and segment loss was 243 million yen.

## (2) Explanation of Financial Position

(Assets)

Total assets increased 3,604 million yen from the end of the previous fiscal year, to 34,821 million yen at the end of the second quarter under review. This result was mainly due to an increase of 4,696 million yen in right-of-use assets and a rise of 1,276 million yen in inventories, offsetting a decrease of 2,929 million yen in cash and cash equivalents.

(Liabilities)

Liabilities increased 4,098 million yen from the end of the previous fiscal year, to 25,213 million yen at the end of the second quarter under review. This result primarily reflected increases of 709 million yen in operating payables and other operating payables and 4,808 million yen in lease liabilities, which offset a decrease of 1,822 million yen in other current liabilities.

(Net assets)

Net assets fell 494 million yen from the end of the previous fiscal year, to 9,607 million yen at the end of the second quarter under review. This result was mainly attributable to a decrease in retained earnings of 775 million yen.

## (3) Explanation of Consolidated Forecast and Other Forward-looking Statements

The full-year financial forecast has yet to be determined because the environment surrounding the Company has changed dramatically due to COVID-19, making it very difficult to forecast the full-year financial results at the present time.

The Company will carefully assess the impact on its financial results and promptly make an announcement when it is possible to make a reasonable forecast.

## 2. Condensed Consolidated Financial Statements and Notes to the Condensed Consolidated Financial Statements

### (1) Condensed Consolidated Statement of Financial Position

(Millions of yen)

| | FY9/19 (as of Sep. 30, 2019) | Second Quarter of FY9/20 (as of March 31, 2020) |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | 8,997 | 6,067 |
| Notes and accounts receivable – trade and other receivables | 5,239 | 5,437 |
| Other financial assets | 4,606 | 4,790 |
| Inventories | 428 | 1,704 |
| Other current assets | 868 | 903 |
| Total current assets | 20,140 | 18,903 |
| Non-current assets | | |
| Property, plant and equipment | 1,324 | 1,795 |
| Right-of-use assets | - | 4,696 |
| Goodwill | 5,861 | 5,336 |
| Intangible assets | 2,501 | 2,387 |
| Other financial assets | 1,103 | 1,346 |
| Other non-current assets | 59 | 40 |
| Deferred tax assets | 226 | 314 |
| Total non-current assets | 11,075 | 15,917 |
| Total assets | 31,216 | 34,821 |
| Liabilities and equity | | |
| Liabilities | | |
| Current liabilities | | |
| Operating payables and other operating payables | 4,414 | 5,123 |
| Interest-bearing debt | 7,519 | 7,757 |
| Lease liabilities | - | 509 |
| Other financial liabilities | 368 | 339 |
| Accrued income taxes | 189 | 203 |
| Other current liabilities | 3,224 | 1,402 |
| Total current liabilities | 15,717 | 15,334 |
| Non-current liabilities | | |
| Interest-bearing debt | 5,111 | 5,217 |
| Lease liabilities | - | 4,299 |
| Other financial liabilities | 41 | 51 |
| Provisions | 85 | 88 |
| Deferred tax liabilities | 136 | 141 |
| Other non-current liabilities | 22 | 80 |
| Total non-current liabilities | 5,397 | 9,878 |
| Total liabilities | 21,114 | 25,213 |
| Equity | | |
| Capital stock | 2,922 | 2,934 |
| Capital surplus | 4,175 | 4,478 |
| Retained earnings | 2,601 | 1,825 |
| Treasury shares | 0 | 0 |
| Other items of equity | 19 | 22 |
| Total equity attributable to owners of parent | 9,719 | 9,260 |

| | | |
|---|---|---|
| Non-controlling interests | 382 | 346 |
| Total equity | 10,101 | 9,607 |
| Total liabilities and equity | 31,216 | 34,821 |

## (2) Condensed Consolidated Statement of Income and Condensed Consolidated Statement of Comprehensive Income

### Condensed Consolidated Statement of Income

For the First Six-month Period

(Millions of yen)

| | Six months ended March 31, 2019 (Oct. 1, 2018 – Mar. 31, 2019) | Six months ended March 31, 2020 (Oct. 1, 2019 – Mar. 31, 2020) |
|---|---|---|
| Net sales | 10,643 | 15,383 |
| Cost of sales | △4,735 | △9,580 |
| Gross profit | 5,908 | 5,803 |
| Selling, general and administrative expense | △6,181 | △6,067 |
| Share of loss (profit) of entities | 264 | △270 |
| Other income | 220 | 941 |
| Other expenses | △34 | △1,067 |
| Operating income | 178 | △660 |
| Finance income | 8 | 11 |
| Finance costs | △46 | △110 |
| Profit before income taxes | 140 | △759 |
| Corporate income tax | 11 | △19 |
| Profit | 152 | △779 |
| | | |
| Profit (loss) attributable to | | |
| Owners of parent | 78 | △741 |
| Non-controlling interests | 74 | △38 |
| Profit | 152 | △779 |
| | | |
| Profit per share | | |
| Profit (loss) per share (Yen) | 4.31 | △37.14 |
| Fully diluted profit (loss) per share (Yen) | 4.16 | △37.14 |

For the Second Quarter Period

(Millions of yen)

| | Note | Second quarter of FY9/19 (Jan. 1, 2019 – Mar. 31, 2019) | Second quarter of FY9/20 (Jan. 1, 2020 – Mar. 31, 2020) |
|---|---|---|---|
| Net sales | 8 | 5,907 | 7,402 |
| Cost of sales | | △2,746 | △4,560 |
| Gross profit | | 3,161 | 2,842 |
| Selling, general and administrative expense | | △3,158 | △2,942 |
| Share of loss (profit) of entities | | 158 | △402 |
| Other income | | 211 | 81 |
| Other expenses | | △12 | △1,040 |
| Operating income | | 361 | △1,461 |
| Finance income | | 5 | 5 |
| Finance costs | | △21 | △52 |
| Profit before income taxes | | 345 | △1,508 |
| Corporate income tax | | △42 | 59 |
| Profit | | 302 | △1,448 |
| | | | |
| Profit (loss) attributable to | | | |
| Owners of parent | | 280 | △1,433 |
| Non-controlling interests | | 22 | △15 |
| Profit | | 302 | △1,448 |
| | | | |
| Profit per share | | | |
| Profit (loss) per share (Yen) | | 15.20 | △71.29 |
| Fully diluted profit (loss) per share (Yen) | | 14.71 | △71.29 |

Condensed Consolidated Statement of Comprehensive Income

For the First Six-month Period

(Millions of yen)

| | Six months ended March 31, 2019 (Oct. 1, 2018 – Mar. 31, 2019) | Six months ended March 31, 2020 (Oct. 1, 2019 – Mar. 31, 2020) |
|---|---|---|
| Profit | 152 | △779 |
| Other comprehensive income, net of tax | | |
| Items that may be reclassified as profit or loss | | |
| Translation adjustments of foreign operations | △6 | △11 |
| Cash flow hedge | △0 | △0 |
| Total of items that may be reclassified as profit or loss | △6 | △11 |
| Total of other comprehensive income, net of tax | △6 | △11 |
| Comprehensive income | 145 | △791 |
| Comprehensive income attributable to | | |
| Owners of parent | 74 | △747 |
| Non-controlling interests | 70 | △43 |

For the Second Quarter Period

(Millions of yen)

| | Note | Second quarter of FY9/19 (Jan. 1, 2019 – Mar. 31, 2019) | Second quarter of FY9/20 (Jan. 1, 2020 – Mar. 31, 2020) |
|---|---|---|---|
| Profit | | 302 | △1,448 |
| Other comprehensive income, net of tax | | | |
| Items that may be reclassified as profit or loss | | | |
| Translation adjustments of foreign operations | | 2 | △10 |
| Cash flow hedge | | 0 | - |
| Total of items that may be reclassified as profit or loss | | 2 | △10 |
| Total of other comprehensive income, net of tax | | 2 | △10 |
| Comprehensive income | | 305 | △1,459 |
| Comprehensive income attributable to | | | |
| Owners of parent | | 281 | △1,439 |
| Non-controlling interests | | 24 | △20 |

## (3) Condensed Consolidated Statement of Changes in Equity

Six months ended March 31, 2019 (Oct. 1, 2018 – Mar. 31, 2019)

(Millions of yen)

| | Equity attributable to owners of parent | | | | | | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| | Capital stock | Capital surplus | Retained earnings | Other items of equity | Treasury shares | Total | | |
| As of October 1, 2018 | 1,100 | 2,117 | 1,865 | 5 | - | 5,089 | 380 | 5,470 |
| Profit (loss) | - | - | 78 | - | - | 78 | 74 | 152 |
| Other comprehensive income | - | - | - | △3 | - | △3 | △3 | △6 |
| Total comprehensive income | - | - | 78 | △3 | - | 74 | 70 | 145 |
| Dividends of surplus | - | △177 | - | - | - | △177 | - | △177 |
| Issuance of new shares | 1,196 | 1,196 | - | - | - | 2,393 | - | 2,393 |
| Increase (decrease) through transfers and other changes | - | - | - | 12 | - | 12 | △3 | 8 |
| Total transactions with owners | 1,196 | 1,019 | - | 12 | - | 2,229 | △3 | 2,225 |
| As of March 31, 2019 | 2,297 | 3,137 | 1,944 | 14 | - | 7,393 | 447 | 7,841 |

Six months ended March 31, 2020 (Oct. 1, 2019 – Mar. 31, 2020)

(Millions of yen)

| | Equity attributable to owners of parent | | | | | | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| | Capital stock | Capital surplus | Retained earnings | Other items of equity | Treasury shares | Total | | |
| As of October 1, 2019 | 2,922 | 4,175 | 2,601 | 19 | △0 | 9,719 | 382 | 10,101 |
| Adjustment for changes in accounting policies | - | - | △34 | - | - | △34 | △18 | △52 |
| Balance after retrospective restatement | 2,922 | 4,175 | 2,566 | 19 | △0 | 9,684 | 363 | 10,048 |
| Profit (loss) | - | - | △741 | - | - | △741 | △38 | △779 |
| Other comprehensive income | - | - | - | △5 | - | △5 | △5 | △11 |
| Total comprehensive income | - | - | △741 | △5 | - | △747 | △43 | △791 |
| Dividends of surplus | - | △198 | - | - | - | △198 | - | △198 |
| Issuance of new shares | 11 | 11 | - | - | - | 23 | - | 23 |
| Increase (decrease) by share exchanges | - | 510 | - | - | - | 510 | - | 510 |
| Increase (decrease) through transfers and other changes | - | △22 | - | 8 | - | △14 | 26 | 12 |
| Total transactions with owners | 11 | 302 | - | 8 | - | 322 | 26 | 349 |
| As of March 31, 2020 | 2,934 | 4,478 | 1,825 | 22 | △0 | 9,260 | 346 | 9,607 |

## (4) Condensed Consolidated Statement of Cash Flows

(Millions of yen)

| | Six months ended March 31, 2019 (Oct. 1, 2018 – Mar. 31, 2019) | Six months ended March 31, 2020 (Oct. 1, 2019 – Mar. 31, 2020) |
|---|---|---|
| Cash flows from operating activities | | |
| Profit (loss) before tax | 140 | △759 |
| Depreciation and amortization expense | 446 | 849 |
| Investment income (loss) | △264 | 270 |
| Negative goodwill | △209 | △755 |
| Impairment losses | - | 1,044 |
| (Increase) decrease in trade and other receivables | △1,025 | △1,473 |
| Increase (decrease) in trade and other payables | 570 | 256 |
| Decrease (increase) in advance payments - trade | 98 | 21 |
| Decrease (increase) in guarantee deposits | 28 | △154 |
| Decrease (increase) in investment securities for sale | △365 | △94 |
| Other | 77 | 68 |
| Subtotal | △489 | 672 |
| Interest and dividend income received | 6 | 9 |
| Interest expenses paid | △45 | △100 |
| Income taxes paid | △7 | △162 |
| Net cash provided by (used in) operating activities | △536 | △926 |
| Cash flows from investing activities | | |
| Purchase of investment securities | - | △111 |
| Purchase of property, plant and equipment | △102 | △134 |
| Purchase of intangible assets | △615 | △577 |
| Payments for lease deposits | △49 | - |
| Collection of lease deposits | 82 | 1 |
| Proceeds from withdrawal of time deposits | 3 | 51 |
| Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation | 5 | 553 |
| Payments for transfer of business | △136 | △150 |
| Other | 15 | 59 |
| Net cash provided by (used in) investing activities | △795 | △307 |
| Cash flows from financing activities | | |
| Net increase (decrease) in short-term loans payable | 333 | △371 |
| Proceeds from long-term loans payable | 1,401 | - |
| Repayments of long-term loans payable | △970 | △847 |
| Proceeds from issuance of common shares | 2,366 | - |
| Repayments of lease obligations | - | △244 |
| Dividends paid to owners of the parent company | △176 | △190 |
| Other | △4 | 21 |
| Net cash provided by (used in) financing activities | 2,949 | △1,631 |
| Effect of exchange rate change on cash and cash equivalents | △4 | 3 |
| Net increase (decrease) in cash and cash equivalents | 1,612 | △2,861 |
| Cash and cash equivalents at beginning of period | 5,320 | 8,997 |
| Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation | - | △68 |
| Cash and cash equivalents at end of period | 6,932 | 6,067 |

## (5) Notes to Condensed Consolidated Financial Statements

(Notes on going concern assumptions)

Not applicable.

(Changes in accounting policies)

Application of IFRS 16 *Leases*

The Group applied IFRS 16 *Leases* (issued in January 2016) (hereinafter referred to as "IFRS 16") starting from the first three months of this consolidated fiscal year. On applying IFRS 16, the Group chose the method of recognizing the cumulative effect of application of the standard at the date of initial application (October 1, 2019), which is permitted under transition provisions, and not retrospectively restating comparative information.

(i) Definition of lease

As a result of the application of IFRS 16, at the inception of a contract, the Group assesses whether the contract is, or contains, a lease. A *contract* is, or *contains*, a *lease if* it conveys the *right* to *control* the *use* of an identified *asset* for a period of time in *exchange* for consideration.

To assess whether a contract conveys the right to control the use of an identified asset, the Group considers whether a contract includes use of an identified asset, whether the Group has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use, and whether the Group has the right to direct use of the asset.

(ii) Accounting for leases

Leases as lessee

At the commencement of the lease, with respect to the lease components of leases except for short-term leases and low value asset leases, the Group recognizes a right-of-use asset and the related lease liability. At the commencement date, the Group measures the right-of-use asset at cost and measures the lease liability at the *present value* of the *lease payments* that are *not paid* at that date.

The cost of the right-of-use asset consists of the amount of the initial measurement of the lease liability, any initial direct costs, any lease payments made before the commencement date and other adjustments. The discount rate used to determine the present value of leases payment is the interest rate implicit in the lease, if that rate can be readily determined, and if that rate cannot be readily determined, the Group uses the Group's incremental borrowing rate.

The lease term is the noncancellable period of the lease including the period covered by the option to extend the lease (when the Group is reasonably certain to exercise an option to extend the lease) and the period covered by the option to terminate the lease (when the Group is reasonably certain not to exercise the option to terminate the lease).

After the commencement date, the right-of-use asset is measured at cost less *accumulated* depreciation and impairment losses. When depreciating right of use assets, the Group *applies* the *depreciation requirements* in *IAS 16 Property, Plant and Equipment*. The Group also applies IAS 36 *Impairment of Assets* when assessing whether to depreciate right-of-use assets and when accounting for identified impairment losses.

If the lease transfers ownership of the underlying asset to the Group by the end of the lease term or if the Group is reasonably certain to exercise the lessee's purchase option, the Group depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Group depreciates the right-of-use asset by the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

After the commencement date, the Group measures the lease liability by increasing the carrying amount to reflect interest on the lease liability and reduces the carrying amount to reflect the lease payments made. The Group also remeasures the carrying amount to reflect any fluctuation of lease payments or lease modifications or to reflect revised in-substance fixed lease payments.

The Group expenses lease payments related to short-term leases and low value leases by the straight-line method.

Accounting on transition

On applying IFRS 16, the Group applies the practical expedient that does not require it to reassess whether existing contracts contain a lease. Accordingly, assessment of leases in accordance with the definition of a lease under IFRS 16 applies only to contracts concluded or amended on or after October 1, 2019.

Leases as lessee

(Leases classified as an operating lease under IAS 17)

A lease liability at transition is measured at present value of the remaining lease payments as of the transition date discounted at the Group's incremental borrowing rate as of October 1, 2019. A right-of-use asset at transition is measured by one of the methods shown below:

・carrying value as if IFRS 16 had always been in place calculated from lease commencement; provided, however, that the discount rate is the lessee's incremental borrowing rate as of the date of initial application; or

・set equal to the lease liability, adjusted for any prepaid or accrued lease payments.

When applying IFRS 16 to leases previously classified as operating leases under IAS 17, the Group applies the practical expedients shown below:

・apply a single discount rate to a portfolio of leases with reasonably similar characteristics;

・account for leases for which the lease term ends within 12 months of the date of initial application by the same method used for short-term leases;

・exclude initial direct costs from the measurement of the right-of-use asset as of the date of initial application; and

・use hindsight with respect to contracts with options to extend or cancel when determining the lease term, etc.

(Lease classified as a finance lease under IAS 17)

The carrying value of the right-of-use asset and the lease liability is determined based on the carrying value of the lease asset and lease liability under IAS 17 immediately before the date of initial application.

(iii) Impact on the condensed quarterly consolidated financial statements

On application of IFRS 16, in the condensed quarterly consolidated statements of financial position at the beginning of the period, the Group additionally recognized right-of-use assets of 4,819 million yen and lease liabilities of 4,871 million yen, and recognized decreased of 34 million yen in retained earnings and 18 million yen in non-controlling interests.

The weighted average of the lessee's incremental borrowing rates applied to lease liabilities recognized in the condensed quarterly consolidated statements of financial position as of the date of initial application is 0.7% to 4.8%.

(Segment information, etc.)

(1) Summary of reportable segments

The Company's reportable segments are its business units that have separate financial information available and that are subject to periodical examinations by the Board of Directors for the purpose of determining the allocation of management resources and evaluating performance.

Under its "One Asia" vision, the Group aims to serve as a bridge connecting various opportunities and engineers in Asia. With the Online Travel Agency Business, IT Offshore Development Business and Investment Business as its three mainstay businesses, the Group classifies these businesses, with their highly unique business models, as its main reportable business segments and draws up and determine Group strategies accordingly.

The businesses and main products belonging to each reportable segment are as follows:

Online Travel Agency Business: AirTrip travel agency services, services for foreign visitors in Japan, life innovation services

IT Offshore Development Business: Lab-type offshore development services and BPO services

Investment Business: Investment in growing companies and turnarounds

(2) Calculation method of segment income (loss) and segment performance

The accounting process for the reportable business segments is the same as that used for the preparation of the condensed consolidated financial statements.

(3) Information about segment income (loss) and segment performance

Six months ended March 31, 2019 (Oct. 1, 2018 – Mar. 31, 2019)

(Millions of yen)

| | Reportable segments | | | | Other (Note 1) | Total | Adjustments (Note 2) | Consolidated Total |
|---|---|---|---|---|---|---|---|---|
| | Online Travel Agency Business | IT Offshore Development Business | Investment Business | Total | | | | |
| External sales revenue | 9,500 | 1,142 | 0 | 10,643 | 0 | 10,643 | - | 10,643 |
| Intersegment revenue | 32 | 308 | - | 341 | - | 341 | △341 | - |
| Total sales revenue | 9,533 | 1,450 | 0 | 10,985 | 0 | 10,985 | △341 | 10,643 |
| Segment profits (losses) (Note 3) | 234 | 111 | 237 | 583 | △0 | 583 | △405 | 178 |
| Financial income | | | | | | | | 8 |
| Financial expenses | | | | | | | | △46 |
| Income before income taxes | | | | | | | | 140 |

(Note 1) The category “Other” includes the business segments not included in the reportable segments, such as advertising revenue.

(Note 2) The category “Adjustments” mainly consists of corporate expenses that do not belong to any reportable segment and intersegment transactions.

(Note 3) The segment profit or loss has been adjusted to the operating income stated in the condensed quarterly consolidated statement of income.

Six months ended March 31, 2020 (Oct. 1, 2019 – Mar. 31, 2020)

(Millions of yen)

| | Reportable segments | | | | Other (Note 1) | Total | Adjustments (Note 2) | Consolidated Total |
|---|---|---|---|---|---|---|---|---|
| | Online Travel Agency Business | IT Offshore Development Business | Investment Business | Total | | | | |
| External sales revenue | 14,295 | 1,016 | 71 | 15,383 | 0 | 15,383 | - | 15,383 |
| Intersegment revenue | - | 425 | - | 425 | - | 425 | △425 | - |
| Total sales revenue | 14,295 | 1,441 | 71 | 15,808 | 0 | 15,808 | △425 | 15,383 |
| Segment profits (losses) (Note 3) | 198 | 53 | △243 | 9 | △0 | 9 | △669 | △660 |
| Financial income | | | | | | | | 11 |
| Financial expenses | | | | | | | | △110 |
| Income before income taxes | | | | | | | | △759 |

(Note 1) The category “Other” includes the business segments not included in the reportable segments, such as advertising revenue.

(Note 2) The category “Adjustments” mainly consists of corporate expenses that do not belong to any reportable segment and intersegment transactions.

(Note 3) The segment profit or loss has been adjusted to the operating income stated in the condensed quarterly consolidated statement of income.

Second quarter ended March 31, 2019 (Jan. 1, 2019 – Mar. 31, 2019)

(Millions of yen)

| | Reportable segments | | | | Other (Note 1) | Total | Adjustments (Note 2) | Consolidated Total |
|---|---|---|---|---|---|---|---|---|
| | Online Travel Agency Business | IT Offshore Development Business | Investment Business | Total | | | | |
| External sales revenue | 5,376 | 531 | 0 | 5,907 | 0 | 5,907 | - | 5,907 |
| Intersegment revenue | 16 | 200 | - | 216 | - | 216 | △216 | - |
| Total sales revenue | 5,392 | 731 | 0 | 6,124 | 0 | 6,124 | △216 | 5,907 |
| Segment profits (losses) (Note 3) | 430 | 20 | 140 | 591 | △0 | 591 | △230 | 361 |
| Financial income | | | | | | | | 5 |
| Financial expenses | | | | | | | | △21 |
| Income before income taxes | | | | | | | | 345 |

(Note 1) The category "Other" includes the business segments not included in the reportable segments, such as advertising revenue.

(Note 2) The category "Adjustments" mainly consists of corporate expenses that do not belong to any reportable segment and intersegment transactions.

(Note 3) The segment profit or loss has been adjusted to the operating income stated in the condensed quarterly consolidated statement of income.

Second quarter ended March 31, 2020 (Jan. 1, 2020 – Mar. 31, 2020)

(Millions of yen)

| | Reportable segments | | | | Other (Note 1) | Total | Adjustments (Note 2) | Consolidated Total |
|---|---|---|---|---|---|---|---|---|
| | Online Travel Agency Business | IT Offshore Development Business | Investment Business | Total | | | | |
| External sales revenue | 6,893 | 508 | 0 | 7,402 | 0 | 7,402 | - | 7,402 |
| Intersegment revenue | - | 209 | - | 209 | - | 209 | △209 | - |
| Total sales revenue | 6,893 | 718 | 0 | 7,612 | 0 | 7,612 | △209 | 7,402 |
| Segment profits (losses) (Note 3) | △707 | 13 | △406 | △1,100 | △0 | △1,100 | △360 | △1,461 |
| Financial income | | | | | | | | 5 |
| Financial expenses | | | | | | | | △52 |
| Income before income taxes | | | | | | | | △1,508 |

(Note 1) The category "Other" includes the business segments not included in the reportable segments, such as advertising revenue.

(Note 2) The category "Adjustments" mainly consists of corporate expenses that do not belong to any reportable segment and intersegment transactions.

(Note 3) The segment profit or loss has been adjusted to the operating income stated in the condensed quarterly consolidated statement of income.

(Important subsequent events)

Not applicable.