

This is an English translation of the original Japanese-language document. Should there be any inconsistency between the translation and the original Japanese text, the latter shall prevail. All references to the “Company,” “we,” “us” or “our” shall mean LINE Corporation and, unless the context otherwise requires, its consolidated subsidiaries.

January 31, 2019

## LINE Corporation Announces Summary of Consolidated Financial Results for the Fiscal Year Ended December 31, 2018

<Prepared in accordance with the International Financial Reporting Standards (“IFRS”)  
as issued by the International Accounting Standards Board (“IASB”)>

TOKYO -- LINE Corporation (NYSE:LN) (TOKYO:3938) announces the summary of its consolidated financial results for the fiscal year ended December 31, 2018.

Company name: **LINE Corporation** (Stock Code: 3938) (the “Company”)  
 Stock exchange on which the shares are listed: Tokyo Stock Exchange  
 URL: <http://linecorp.com/>  
 Representative: Takeshi Idezawa, Chief Executive Officer  
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 Scheduled date of annual general meeting of shareholders: March 28, 2019  
 Payment date of dividends: –  
 Filing date of annual securities report: March 29, 2019  
 Supplemental materials prepared on financial results: Yes  
 Financial results conference scheduled: Yes (for institutional investors and analysts)

(Yen amounts are rounded to the nearest million, unless otherwise noted.)

### 1. Consolidated financial results for the fiscal year ended December 31, 2018 (from January 1, 2018 to December 31, 2018)

#### (1) Consolidated operating results

(Percentages indicate year-on-year changes.)

|                   | Revenues        |      | Profit from operating activities |        | Profit before income taxes |        | Profit/(Loss) for the year |      |
|-------------------|-----------------|------|----------------------------------|--------|----------------------------|--------|----------------------------|------|
| Fiscal year ended | Millions of yen | %    | Millions of yen                  | %      | Millions of yen            | %      | Millions of yen            | %    |
| December 31, 2018 | 207,182         | 24.0 | 16,110                           | (35.8) | 3,354                      | (81.5) | (5,792)                    | —    |
| December 31, 2017 | 167,147         | 18.8 | 25,078                           | 26.0   | 18,145                     | 0.9    | 8,210                      | 15.6 |

|                   | Profit/(Loss) attributable to the shareholders of the Company |      | Comprehensive income/(loss) for the year |       | Basic earnings/(loss) per share | Diluted earnings/(loss) per share |
|-------------------|---------------------------------------------------------------|------|------------------------------------------|-------|---------------------------------|-----------------------------------|
| Fiscal year ended | Millions of yen                                               | %    | Millions of yen                          | %     | Yen                             | Yen                               |
| December 31, 2018 | (3,718)                                                       | —    | (11,929)                                 | —     | (15.62)                         | (15.62)                           |
| December 31, 2017 | 8,078                                                         | 19.4 | 11,743                                   | 100.7 | 36.56                           | 34.01                             |

|                   | Return on equity attributable to the shareholders of the Company |  | Ratio of profit before tax to total assets |  | Ratio of operating profit to revenue |  |
|-------------------|------------------------------------------------------------------|--|--------------------------------------------|--|--------------------------------------|--|
| Fiscal year ended | %                                                                |  | %                                          |  | %                                    |  |
| December 31, 2018 | —                                                                |  | 0.8                                        |  | 7.8                                  |  |
| December 31, 2017 | 4.7                                                              |  | 6.5                                        |  | 15.0                                 |  |

(Reference) Share of profit/(loss) of associates and joint ventures accounted for using the equity method:

Fiscal year ended December 31, 2018 (11,148) million yen      Fiscal year ended December 31, 2017 (6,321) million yen

**(2) Consolidated financial position**

|                   | Total assets    | Total equity    | Equity attributable to the shareholders of the Company | Ratio of equity attributable to the shareholders of the Company to total assets | Equity attributable to the shareholders of the Company per share |
|-------------------|-----------------|-----------------|--------------------------------------------------------|---------------------------------------------------------------------------------|------------------------------------------------------------------|
| As of             | Millions of yen | Millions of yen | Millions of yen                                        | %                                                                               | Yen                                                              |
| December 31, 2018 | 486,587         | 208,514         | 198,916                                                | 40.9                                                                            | 833.87                                                           |
| December 31, 2017 | 303,439         | 189,977         | 185,075                                                | 61.0                                                                            | 779.30                                                           |

**(3) Consolidated cash flows**

|                   | Cash flows from operating activities | Cash flows from/(used in) investing activities | Cash flows from financing activities | Cash and cash equivalents at the end of the year |
|-------------------|--------------------------------------|------------------------------------------------|--------------------------------------|--------------------------------------------------|
| Fiscal year ended | Millions of yen                      | Millions of yen                                | Millions of yen                      | Millions of yen                                  |
| December 31, 2018 | 9,122                                | (52,884)                                       | 178,401                              | 256,978                                          |
| December 31, 2017 | 10,965                               | (34,230)                                       | 11,439                               | 123,606                                          |

**2. Cash dividends**

|                                                  | Annual dividends per share |                    |                   |                 |       | Total amount of cash dividends (annual) | Payout ratio (consolidated) | Dividend on equity attributable to the shareholders of the Company ratio (consolidated) |
|--------------------------------------------------|----------------------------|--------------------|-------------------|-----------------|-------|-----------------------------------------|-----------------------------|-----------------------------------------------------------------------------------------|
|                                                  | First quarter-end          | Second quarter-end | Third quarter-end | Fiscal year-end | Total |                                         |                             |                                                                                         |
|                                                  | Yen                        | Yen                | Yen               | Yen             | Yen   | Millions of yen                         | %                           | %                                                                                       |
| For the year ended December 31, 2017             | —                          | 0.00               | —                 | 0.00            | 0.00  | —                                       | 0.0                         | 0.0                                                                                     |
| For the year ended December 31, 2018             | —                          | 0.00               | —                 | 0.00            | 0.00  | —                                       | 0.0                         | 0.0                                                                                     |
| For the year ending December 31, 2019 (Forecast) | —                          | 0.00               | —                 | 0.00            | 0.00  |                                         | —                           |                                                                                         |

**3. Consolidated earnings forecasts for 2019 (from January 1, 2019 to December 31, 2019)**

Amid rapid international and domestic changes, there is a level of uncertainty within the mobile applications market for smartphones and other mobile devices, the main business of the Company and its subsidiaries (collectively, the “Group”). As the state of this market significantly impacts the Group’s financial results, it is difficult to formulate a precise earnings forecast. Furthermore, as the Company’s shares are listed on the New York Stock Exchange as well as the Tokyo Stock Exchange, we are also carefully considering risks relating to U.S. securities regulations. Accordingly, an announcement concerning earnings forecasts is not made at this time.

**Notes**

- (1) Changes in significant subsidiaries during the fiscal year ended December 31, 2018 (changes in specified subsidiaries resulting in change in scope of consolidation): Yes  
 (Number of newly added specified subsidiaries): 2  
 (Name of specified subsidiaries): LINE Financial Corporation, LINE Financial Asia Corporation Limited
- (2) Changes in accounting policies and estimates
  - a. Changes in accounting policies due to revisions in accounting standards under IFRS: Yes
  - b. Changes in accounting policies due to other reasons: None
  - c. Changes in accounting estimates: None

The Group has applied IFRS 15 Revenue from Contracts with Customers beginning the fiscal year ended December 31, 2018, and this has an effect on the methods of revenue recognition and measurement in some services.

(3) Number of shares issued and outstanding (common stock)

- a. Total number of common shares issued and outstanding at the end of the fiscal year (including treasury shares)
 

|                         |                    |
|-------------------------|--------------------|
| As of December 31, 2018 | 240,524,642 shares |
| As of December 31, 2017 | 238,496,810 shares |
- b. Number of treasury shares at the end of the fiscal year
 

|                         |                  |
|-------------------------|------------------|
| As of December 31, 2018 | 1,979,775 shares |
| As of December 31, 2017 | 1,007,710 shares |
- c. Average number of common shares outstanding during the fiscal year
 

|                                             |                    |
|---------------------------------------------|--------------------|
| For the fiscal year ended December 31, 2018 | 238,074,806 shares |
| For the fiscal year ended December 31, 2017 | 220,945,548 shares |

(Reference) Separate financial results for the fiscal year ended December 31, 2018 (from January 1, 2018 to December 31, 2018) under Japanese GAAP

(Yen amounts are rounded down to the nearest million, unless otherwise noted.)

(1) Separate operating results

(Percentages indicate year-on-year changes.)

|                   | Revenues        |      | Profit from operating activities |        | Profit from ordinary activities |        | Profit/(Loss) for the year |       |
|-------------------|-----------------|------|----------------------------------|--------|---------------------------------|--------|----------------------------|-------|
| Fiscal year ended | Millions of yen | %    | Millions of yen                  | %      | Millions of yen                 | %      | Millions of yen            | %     |
| December 31, 2018 | 149,606         | 18.8 | 3,066                            | (77.9) | 2,889                           | (79.6) | (3,674)                    | —     |
| December 31, 2017 | 125,929         | 17.7 | 13,848                           | 59.9   | 14,157                          | 44.4   | 7,733                      | 206.2 |

|                   | Basic earnings/(loss) per share | Diluted earnings/(loss) per share |
|-------------------|---------------------------------|-----------------------------------|
| Fiscal year ended | Yen                             | Yen                               |
| December 31, 2018 | (15.43)                         | (15.43)                           |
| December 31, 2017 | 35.00                           | 32.56                             |

(2) Separate financial position

|                   | Total assets    | Net assets      | Equity ratio | Net assets per share |
|-------------------|-----------------|-----------------|--------------|----------------------|
| As of             | Millions of yen | Millions of yen | %            | Yen                  |
| December 31, 2018 | 426,041         | 183,057         | 41.8         | 747.12               |
| December 31, 2017 | 265,517         | 185,332         | 67.7         | 756.39               |

(Reference) Equity:

Fiscal year ended December 31, 2018 178,221 million yen      Fiscal year ended December 31, 2017 179,633 million yen

<Reasons for variance between separate financial results for the fiscal years ended December 31, 2018 and 2017>

Revenues for the year ended December 31, 2018 increased as a result of the significant growth in “display advertising” (previously known as “performance ads”), such as Timeline Ads and LINE News Ads provided through the LINE advertising platform as well as “account advertising” (previously known as “messenger ads”), such as LINE Official Accounts. On the other hand, profit from operating activities and profit from ordinary activities decreased due to the increase in payroll expenses as a result of an increase in the number of employees as well as an increase in depreciation expenses from enhancement of our server infrastructure. The loss for the year was primarily as a result of a loss on our share of associates and joint ventures.

\* Information regarding the audit procedures

Financial results reports are exempt from audit procedures conducted by certified public accountants or an audit corporation.

\* Cautionary statement with respect to forward-looking statements, and other information

This document contains forward-looking statements with respect to the current plans, estimates, strategies and beliefs of the Company. Forward-looking statements include, but are not limited to, those statements using words such as “anticipate,” “believe,” “continue,” “expect,” “estimate,” “intend,” “project” and similar expressions and future or conditional verbs such as “will,” “would,” “should,” “could,” “might,” “can,” “may,” or similar expressions generally intended to identify forward-looking statements. These forward-looking statements are based on information currently available to the Company, speak only as of the date hereof and are based on the Company’s current plans and expectations and are subject to a number of known and unknown uncertainties and risks, many of which are beyond the Company’s control. As a consequence, current plans, anticipated actions and future financial position and results of operations may differ significantly from those expressed in any forward-looking statements in the document. You are cautioned not to unduly rely on such forward-looking statements when evaluating the information presented and the Company does not intend to update any of these forward-looking statements. Risks and uncertainties that might affect the Company include, but are not limited to:

- i. its ability to attract and retain users and increase the level of engagement of its users;
- ii. its ability to improve user monetization;
- iii. its ability to successfully enter new markets and manage its business expansion;
- iv. its ability to compete in the global social network services market;
- v. its ability to develop or acquire new products and services, improve its existing products and services and increase the value of its products and services in a timely and cost-effective manner;
- vi. its ability to maintain good relationships with platform partners and attract new platform partners;
- vii. its ability to attract advertisers to the LINE platform and increase the amount that advertisers spend with LINE;
- viii. its expectations regarding its user growth rate and the usage of its mobile applications;
- ix. its ability to increase revenues and its revenue growth rate;
- x. its ability to timely and effectively scale and adapt its existing technology and network infrastructure;
- xi. its ability to successfully acquire and integrate companies and assets;
- xii. its future business development, results of operations and financial condition;
- xiii. the regulatory environment in which it operates;
- xiv. fluctuations in currency exchange rates and changes in the proportion of its revenues and expenses denominated in foreign currencies; and
- xv. changes in business or macroeconomic conditions.

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## 1. Overview of operating results and others

### (1) Overview of operating results for the fiscal year

|                                                                            | 2017    | 2018    |
|----------------------------------------------------------------------------|---------|---------|
| Revenues                                                                   | 167,147 | 207,182 |
| Profit from operating activities                                           | 25,078  | 16,110  |
| Profit before tax from continuing operations                               | 18,145  | 3,354   |
| Profit/(loss) for the year                                                 | 8,210   | (5,792) |
| Profit/(loss) for the year attributable to the shareholders of the Company | 8,078   | (3,718) |

Revenues for the fiscal year ended December 31, 2018 was 207,182 million yen, an increase of 24.0% year on year. The Group has applied IFRS 15 beginning the fiscal year ended December 31, 2018. Because the Group has applied the modified retrospective method and not the full retrospective method, the consolidated operating results for the fiscal year ended December 31, 2017 are presented based on IAS 18, which was the accounting standard previously used by the Group, and the consolidated operating results for the fiscal year ended December 31, 2018 are presented based on IFRS 15. Thus, revenues for the fiscal year ended December 31, 2018 include an increase of 9,393 million yen due to changes in accounting standards. Another major factor for the increase in revenues was an increase in advertising sales.

Profit from operating activities for the fiscal year ended December 31, 2018 was 16,110 million yen, a decline of 35.8% year on year. The key factors for this decline included a 15,024 million yen increase in employee compensation expenses as a result of an increase in personnel and the introduction of a J-ESOP, a 7,818 million yen increase in outsourcing and other service expenses in connection with an increase in development costs, including development costs related to artificial intelligence ("AI") and the Company's internal systems, and a 15,738 million yen increase in other operating expenses due to increases in the cost of goods sold in connection with LINE Friends and rent payments. Moreover, the sales commission expenses included increases of 8,892 million yen due to the application of IFRS 15, in addition to the increase due to the conversion of LINE Part-Time Job from an associate to a subsidiary as well as the increases in revenue of Friends.

The decline in profit from operating activities was partially offset by the following factors:

- Gain on loss of control of LINE Mobile Corporation and LINE Games Corporation of an aggregate of 24,794 million yen resulting from their conversion from subsidiaries to associates accounted for under the equity method
- Dilution gain of 2,620 million yen due to third-party allotments by the Group's associates and joint ventures as the Group's ownership ratios of these investments declined while carrying amounts increased as a result of revaluation of the investments.

Profit before tax from continuing operations for the fiscal year ended December 31, 2018 was 3,354 million yen, a decline of 81.5% year on year.

The main factors for the decline in profit before tax from continuing operations were the aforementioned decline in profit from operating activities and the increase in the share of loss of associates and joint ventures.

Loss for the year ended December 31, 2018 was 5,792 million yen, compared to a profit of 8,210 million yen for the fiscal year ended December 31, 2017.

The main factors for the recorded loss for the year include the aforementioned factors for the decline in profit before tax from continuing operations; the inability to recognize tax benefits for the share of loss of associates and joint ventures which were not expected to be realized within the foreseeable future; the inability to recognize the related tax benefits after being unable to recognize deferred tax assets despite the posting of loss before tax on a standalone basis for some subsidiaries; and the receipt by our Korean subsidiary of a claim for additionally charged taxes by the Korean tax authorities which amounted to approximately 2,215 million yen. The Group is currently in a process of procedures including appeal to the tax authorities concerning the additional tax claimed.

As a result of the above, loss for the year attributable to the shareholders of the Company for the fiscal year ended December 31, 2018 was 3,718 million yen, compared to a profit of 8,078 million yen for the fiscal year ended December 31, 2017.

### Profit and loss by segment

Beginning the fiscal year ended December 31, 2018, the Group monitors its profit and loss by segment. The profit and loss of each segment for the fiscal year ended December 31, 2017 were prepared mainly based on the same method as for the fiscal year ended December 31, 2018 where practicable and were restated accordingly.

In addition, although the operating performance of the fiscal year ended December 31, 2017 was prepared under the previous accounting standard, the year-on-year percentage changes by segment were calculated based on the performance of the fiscal year ended December 31, 2017, adjusted for the gross presentation of advertising revenue based on IFRS 15 for comparison with the fiscal year ended December 31, 2017. Thus, for purposes of calculating the year-on-year percentage changes, revenues and operating expenses for the fiscal year ended December 31, 2017 of the Core business segment were adjusted by an increase of 7,281 million yen each, and by an increase of 55 million yen each for the Strategic business segment.

The Group's operating profits and losses by segment do not include adjustments to other operating income or share-based compensation expenses.

### **Core business**

Revenues from the Core business segment for the fiscal year ended December 31, 2018 was 178,398 million yen, an increase of 14.0% year on year, and profit from operating activities in this segment was 26,559 million yen, a decrease of 22.5% year on year. Increases in revenue in the Core business segment were driven by an increase in advertising sales due to strong sales of display ads and accounts ads, which more than offset a decrease in revenues from communication and content. Profit from operating activities in this segment decreased compared to the fiscal year ended December 31, 2017, however, mainly due to a decrease in revenues from communication and content as well as an increase in marketing expenses for LINE Part-Time Job and LINE Manga, among others.

### **Strategic business**

Revenues from the Strategic business segment for the fiscal year ended December 31, 2018 was 28,784 million yen, an increase of 59.5% year on year, and loss from operating activities in this segment was 34,931 million yen compared to 17,674 million yen for the fiscal year ended December 31, 2017.

The main factor for the increase in revenues in the Strategic business segment was the increase in revenues from LINE Friends and E-commerce. The increase in loss from operating activities in the Strategic business segment was mainly due to increases in expenses related to the development and marketing expenses related to our fintech business as well as the development of Clova AI.

For more details of profit and loss by segment, see 3. (6) Segment information. As the Group applied IFRS 15 with the modified retrospective method, figures in 3. (6) Segment information are not adjusted for the aforementioned impact of the adoption of IFRS 15.

## **(2) Cash flow position**

The balance of cash and cash equivalents (hereinafter, “cash”) as of December 31, 2018 increased by 133,372 million yen from the end of the previous fiscal year to 256,978 million yen.

The respective cash flow positions are as follows.

### **Cash flows from operating activities**

Net cash provided by operating activities was 9,122 million yen for the fiscal year ended December 31, 2018, compared to net cash provided by operating activities of 10,965 million yen for the fiscal year ended December 31, 2017. Cash provided by operating activities primarily consisted of an increase of 6,653 million yen in trade and other payables, an increase of 7,082 million yen in accrued expenses as well as adjustments for non-cash items including depreciation and amortization expenses of 11,135 million yen, share-based compensation expenses of 2,528 million yen, and share of loss of associates and joint ventures of 11,148 million yen. The main factors contributing to cash decrease for the fiscal year ended December 31, 2018 were an increase of 1,672 million yen in inventories, payment of issuance costs for corporate bonds of 1,954 million yen, income taxes paid of 9,502 million yen and gain on loss of control of subsidiaries and business transfer of 24,794 million yen as a non-cash transaction.

### **Cash flows from investing activities**

Net cash used in investing activities was 52,884 million yen for the fiscal year ended December 31, 2018, compared to net cash used in investing activities of 34,230 million yen for the fiscal year ended December 31, 2017. Factors affecting the cash outflows are primarily related to purchase of time deposits of 13,443 million yen, purchases of equity investments of 5,022 million yen, investments in debt instruments of 15,661 million yen, acquisition of property and equipment and intangible assets of 20,939 million yen and investments in associates and joint ventures of 14,214 million yen. Factors affecting the cash inflows in the fiscal year ended December 31, 2018 are primarily related to proceeds from maturity of time deposits of 13,843 million yen.

### **Cash flows from financing activities**

Net cash provided by financing activities was 178,401 million yen for the fiscal year ended December 31, 2018, compared to net cash provided by financing activities of 11,439 million yen for the fiscal year ended December 31, 2017. Factors affecting the cash inflows are primarily related to proceeds from issuance of corporate bonds of 149,978 million yen and capital contribution from third party non-controlling interests of 26,439 million yen.

## **(3) Forecasts for the fiscal year ending December 31, 2019**

The Group’s revenues for the fiscal year ending December 31, 2019 are expected to increase due to a steady growth in transaction volume from advertising services, LINE Manga, and LINE Music of the Core business segment. In the Strategic business segment, in addition to existing LINE Friends and E-Commerce services, the new financial services that launched during the fiscal year ended December 31, 2018 are expected to contribute to revenue growth.

In the fiscal year ending December 31, 2019, operating expenses are expected to increase, mainly due to an expansion in personnel in our advertising and finance businesses as well as active investments in our payment service.

## **2. Basic approach to the selection of accounting standards**

The Group has adopted International Financial Reporting Standards (“IFRS”) to increase the international comparability of its financial information and to improve the convenience in capital markets.

### 3. Consolidated Financial Statements - Unaudited

#### (1) Consolidated Statement of Financial Position - Unaudited

|                                                               | <i>(In millions of yen)</i>  |                              |
|---------------------------------------------------------------|------------------------------|------------------------------|
|                                                               | <b>December 31,<br/>2017</b> | <b>December 31,<br/>2018</b> |
| <b>Assets</b>                                                 |                              |                              |
| <b>Current assets</b>                                         |                              |                              |
| Cash and cash equivalents                                     | 123,606                      | 256,978                      |
| Trade and other receivables                                   | 42,892                       | 37,644                       |
| Other financial assets, current                               | 13,258                       | 15,915                       |
| Contract assets                                               | —                            | 339                          |
| Inventories                                                   | 3,455                        | 4,887                        |
| Other current assets                                          | 7,438                        | 9,751                        |
| <b>Total current assets</b>                                   | <b>190,649</b>               | <b>325,514</b>               |
| <b>Non-current assets</b>                                     |                              |                              |
| Property and equipment                                        | 15,125                       | 24,726                       |
| Goodwill                                                      | 16,767                       | 17,095                       |
| Other intangible assets                                       | 6,486                        | 5,298                        |
| Investments in associates and joint ventures                  | 24,844                       | 53,921                       |
| Other financial assets, non-current                           | 32,084                       | 42,287                       |
| Deferred tax assets                                           | 16,492                       | 17,107                       |
| Other non-current assets                                      | 992                          | 639                          |
| <b>Total non-current assets</b>                               | <b>112,790</b>               | <b>161,073</b>               |
| <b>Total assets</b>                                           | <b>303,439</b>               | <b>486,587</b>               |
| <b>Liabilities</b>                                            |                              |                              |
| <b>Current liabilities</b>                                    |                              |                              |
| Trade and other payables                                      | 28,810                       | 34,985                       |
| Other financial liabilities, current                          | 28,003                       | 36,726                       |
| Accrued expenses                                              | 12,087                       | 18,405                       |
| Income tax payables                                           | 2,365                        | 4,855                        |
| Contract liabilities                                          | —                            | 24,637                       |
| Advances received                                             | 17,975                       | —                            |
| Deferred revenue                                              | 9,246                        | —                            |
| Provisions, current                                           | 991                          | 2,581                        |
| Other current liabilities                                     | 1,940                        | 1,037                        |
| <b>Total current liabilities</b>                              | <b>101,417</b>               | <b>123,226</b>               |
| <b>Non-current liabilities</b>                                |                              |                              |
| Corporate bonds                                               | —                            | 142,132                      |
| Other financial liabilities, non-current                      | 602                          | 527                          |
| Deferred tax liabilities                                      | 1,573                        | 503                          |
| Provisions, non-current                                       | 3,060                        | 3,309                        |
| Post-employment benefits                                      | 6,162                        | 6,943                        |
| Other non-current liabilities                                 | 648                          | 1,433                        |
| <b>Total non-current liabilities</b>                          | <b>12,045</b>                | <b>154,847</b>               |
| <b>Total liabilities</b>                                      | <b>113,462</b>               | <b>278,073</b>               |
| <b>Shareholders' equity</b>                                   |                              |                              |
| Share capital                                                 | 92,369                       | 96,064                       |
| Share premium                                                 | 93,560                       | 118,626                      |
| Treasury shares                                               | (4,000)                      | (8,205)                      |
| Accumulated deficit                                           | (4,294)                      | (5,556)                      |
| Accumulated other comprehensive income                        | 7,440                        | (2,013)                      |
| <b>Equity attributable to the shareholders of the Company</b> | <b>185,075</b>               | <b>198,916</b>               |
| <b>Non-controlling interests</b>                              | <b>4,902</b>                 | <b>9,598</b>                 |

|                                                   |         |         |
|---------------------------------------------------|---------|---------|
| <b>Total shareholders' equity</b>                 | 189,977 | 208,514 |
| <b>Total liabilities and shareholders' equity</b> | 303,439 | 486,587 |

## (2) Consolidated Statement of Profit or Loss and Consolidated Statement of Comprehensive Income - Unaudited

(Consolidated Statement of Profit or Loss - Unaudited)

(In millions of yen)

|                                                              | 2017             | 2018             |
|--------------------------------------------------------------|------------------|------------------|
| <b>Revenues and other operating income:</b>                  |                  |                  |
| Revenues                                                     | 167,147          | 207,182          |
| Other operating income                                       | 12,011           | 28,099           |
| <b>Total revenues and other operating income</b>             | <b>179,158</b>   | <b>235,281</b>   |
| <b>Operating expenses:</b>                                   |                  |                  |
| Payment processing and licensing expenses                    | (29,589)         | (30,823)         |
| Sales commission expenses                                    | (899)            | (15,960)         |
| Employee compensation expenses                               | (42,469)         | (57,493)         |
| Marketing expenses                                           | (15,477)         | (20,311)         |
| Infrastructure and communication expenses                    | (9,087)          | (10,483)         |
| Outsourcing and other service expenses                       | (24,007)         | (31,825)         |
| Depreciation and amortization expenses                       | (7,149)          | (11,135)         |
| Other operating expenses                                     | (25,403)         | (41,141)         |
| <b>Total operating expenses</b>                              | <b>(154,080)</b> | <b>(219,171)</b> |
| <b>Profit from operating activities</b>                      | <b>25,078</b>    | <b>16,110</b>    |
| Finance income                                               | 257              | 413              |
| Finance costs                                                | (26)             | (519)            |
| Share of loss of associates and joint ventures               | (6,321)          | (11,148)         |
| Loss on foreign currency transactions, net                   | (818)            | (902)            |
| Other non-operating income                                   | 1,963            | 869              |
| Other non-operating expenses                                 | (1,988)          | (1,469)          |
| <b>Profit before tax from continuing operations</b>          | <b>18,145</b>    | <b>3,354</b>     |
| Income tax expenses                                          | (9,922)          | (9,522)          |
| <b>Profit/(loss) for the year from continuing operations</b> | <b>8,223</b>     | <b>(6,168)</b>   |
| (Loss)/profit from discontinued operations, net of tax       | (13)             | 376              |
| <b>Profit/(loss) for the year</b>                            | <b>8,210</b>     | <b>(5,792)</b>   |
| Attributable to:                                             |                  |                  |
| The shareholders of the Company                              | 8,078            | (3,718)          |
| Non-controlling interests                                    | 132              | (2,074)          |

(In yen)

**Earnings per share**

|                                                                                                    |        |         |
|----------------------------------------------------------------------------------------------------|--------|---------|
| Basic profit/(loss) for the year attributable to the shareholders of the Company                   | 36.56  | (15.62) |
| Diluted profit/(loss) for the year attributable to the shareholders of the Company                 | 34.01  | (15.62) |
| Earnings per share from continuing operations                                                      |        |         |
| Basic profit/(loss) from continuing operations attributable to the shareholders of the Company     | 36.62  | (17.20) |
| Diluted profit/(loss) from continuing operations attributable to the shareholders of the Company   | 34.06  | (17.20) |
| Earnings per share from discontinued operations                                                    |        |         |
| Basic (loss)/profit from discontinued operations attributable to the shareholders of the Company   | (0.06) | 1.58    |
| Diluted (loss)/profit from discontinued operations attributable to the shareholders of the Company | (0.05) | 1.58    |

## (Consolidated Statement of Comprehensive Income - Unaudited)

|                                                                                                                                      | <i>(In millions of yen)</i> |                 |
|--------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|-----------------|
|                                                                                                                                      | <b>2017</b>                 | <b>2018</b>     |
| <b>Profit/(loss) for the year</b>                                                                                                    | 8,210                       | (5,792)         |
| <b>Other comprehensive income</b>                                                                                                    |                             |                 |
| <b>Items that will not be reclassified to profit or loss</b>                                                                         |                             |                 |
| Net changes in fair value of equity instruments at FVOCI                                                                             | —                           | (2,681)         |
| Remeasurement of defined benefit plans                                                                                               | 2,093                       | (169)           |
| Income tax relating to items that will not be reclassified to profit or loss                                                         | (488)                       | 706             |
| <b>Items that may be reclassified to profit or loss</b>                                                                              |                             |                 |
| Debt Instruments at FVOCI:                                                                                                           |                             |                 |
| Net changes in fair value of debt instruments at FVOCI                                                                               | —                           | 88              |
| Reclassification to profit or loss of debt instruments at FVOCI                                                                      | —                           | 10              |
| Available-for-sale financial assets:                                                                                                 |                             |                 |
| Net changes in fair value of available-for-sale financial assets                                                                     | (3,339)                     | —               |
| Reclassification to profit or loss of available-for-sale financial assets                                                            | 1,090                       | —               |
| Exchange differences on translation of foreign operations:                                                                           |                             |                 |
| Gain/(loss) arising during the year                                                                                                  | 3,751                       | (4,047)         |
| Reclassification to profit or loss                                                                                                   | (13)                        | (345)           |
| Proportionate share of other comprehensive income or loss of associates and joint ventures                                           | 106                         | (27)            |
| Reclassification to profit or loss on the proportionate share of other comprehensive income or loss of associates and joint ventures | —                           | (12)            |
| Income tax relating to items that may be reclassified subsequently to profit or loss                                                 | 333                         | 340             |
| <b>Total other comprehensive income/(loss) for the year, net of tax</b>                                                              | <b>3,533</b>                | <b>(6,137)</b>  |
| <b>Total comprehensive income/(loss) for the year, net of tax</b>                                                                    | <b>11,743</b>               | <b>(11,929)</b> |
| <b>Attributable to:</b>                                                                                                              |                             |                 |
| The shareholders of the Company                                                                                                      | 11,365                      | (9,648)         |
| Non-controlling interests                                                                                                            | 378                         | (2,281)         |

## (3) Consolidated Statement of Change in Equity - Unaudited

(In millions of yen)

|                                                                                                  | Equity attributable to the shareholders of the Company |               |                 |                     |                                        |                            |                              |         |                           |                            |
|--------------------------------------------------------------------------------------------------|--------------------------------------------------------|---------------|-----------------|---------------------|----------------------------------------|----------------------------|------------------------------|---------|---------------------------|----------------------------|
|                                                                                                  | Share capital                                          | Share premium | Treasury shares | Accumulated deficit | Accumulated other comprehensive income |                            |                              | Total   | Non-controlling interests | Total shareholders' equity |
|                                                                                                  |                                                        |               |                 |                     | Foreign currency translation reserve   | Available-for-sale reserve | Defined benefit plan reserve |         |                           |                            |
| <b>Balance at January 1, 2017</b>                                                                | 77,856                                                 | 91,208        | —               | (12,381)            | (174)                                  | 5,649                      | (1,324)                      | 160,834 | 189                       | 161,023                    |
| <b>Comprehensive income/(loss)</b>                                                               |                                                        |               |                 |                     |                                        |                            |                              |         |                           |                            |
| Profit for the year                                                                              | —                                                      | —             | —               | 8,078               | —                                      | —                          | —                            | 8,078   | 132                       | 8,210                      |
| Other comprehensive income/(loss)                                                                | —                                                      | —             | —               | —                   | 3,328                                  | (1,721)                    | 1,680                        | 3,287   | 246                       | 3,533                      |
| <b>Total comprehensive income/(loss) for the year</b>                                            | —                                                      | —             | —               | 8,078               | 3,328                                  | (1,721)                    | 1,680                        | 11,365  | 378                       | 11,743                     |
| Recognition of share-based payments                                                              | —                                                      | 1,882         | —               | —                   | —                                      | —                          | —                            | 1,882   | —                         | 1,882                      |
| Forfeiture of stock options                                                                      | —                                                      | (9)           | —               | 9                   | —                                      | —                          | —                            | —       | —                         | —                          |
| Exercise of stock options                                                                        | 12,513                                                 | (1,088)       | —               | —                   | —                                      | —                          | —                            | 11,425  | —                         | 11,425                     |
| Acquisition of subsidiary                                                                        | —                                                      | —             | —               | —                   | —                                      | —                          | —                            | —       | 4,168                     | 4,168                      |
| Acquisition of non-controlling interests                                                         | —                                                      | (423)         | —               | —                   | 4                                      | —                          | (2)                          | (421)   | 167                       | (254)                      |
| Issuance of common shares and acquisition of treasury shares under Employee Stock Ownership Plan | 2,000                                                  | 1,990         | (4,000)         | —                   | —                                      | —                          | —                            | (10)    | —                         | (10)                       |
| <b>Balance at December 31, 2017</b>                                                              | 92,369                                                 | 93,560        | (4,000)         | (4,294)             | 3,158                                  | 3,928                      | 354                          | 185,075 | 4,902                     | 189,977                    |

## (3) Consolidated Statement of Change in Equity - Unaudited (continued)

(In millions of yen)

|                                                                                                  | Equity attributable to the shareholders of the Company |               |                 |                     |                                        |                           |                              |         |                           |                           |
|--------------------------------------------------------------------------------------------------|--------------------------------------------------------|---------------|-----------------|---------------------|----------------------------------------|---------------------------|------------------------------|---------|---------------------------|---------------------------|
|                                                                                                  | Share capital                                          | Share premium | Treasury Shares | Accumulated deficit | Accumulated other comprehensive income |                           |                              | Total   | Non-controlling interests | Total shareholders equity |
|                                                                                                  |                                                        |               |                 |                     | Foreign currency translation reserve   | Financial assets at FVOCI | Defined benefit plan reserve |         |                           |                           |
| <b>Balance at January 1, 2018</b>                                                                | 92,369                                                 | 93,560        | (4,000)         | (4,294)             | 3,158                                  | 3,928                     | 354                          | 185,075 | 4,902                     | 189,977                   |
| Adjustment on adoption of new accounting standards                                               | —                                                      | —             | —               | 177                 | —                                      | (1,258)                   | —                            | (1,081) | (85)                      | (1,166)                   |
| <b>Balance at January 1, 2018 (restated)</b>                                                     | 92,369                                                 | 93,560        | (4,000)         | (4,117)             | 3,158                                  | 2,670                     | 354                          | 183,994 | 4,817                     | 188,811                   |
| <b>Comprehensive loss</b>                                                                        |                                                        |               |                 |                     |                                        |                           |                              |         |                           |                           |
| Loss for the year                                                                                | —                                                      | —             | —               | (3,718)             | —                                      | —                         | —                            | (3,718) | (2,074)                   | (5,792)                   |
| Other comprehensive loss                                                                         | —                                                      | —             | —               | —                   | (3,802)                                | (1,830)                   | (298)                        | (5,930) | (207)                     | (6,137)                   |
| <b>Total comprehensive loss for the year</b>                                                     | —                                                      | —             | —               | (3,718)             | (3,802)                                | (1,830)                   | (298)                        | (9,648) | (2,281)                   | (11,929)                  |
| Recognition of share-based payments                                                              | —                                                      | 1,336         | —               | —                   | —                                      | —                         | —                            | 1,336   | —                         | 1,336                     |
| Forfeiture of stock options                                                                      | —                                                      | (37)          | —               | 37                  | —                                      | —                         | —                            | —       | —                         | —                         |
| Exercise of stock options                                                                        | 1,195                                                  | (199)         | —               | —                   | —                                      | —                         | —                            | 996     | —                         | 996                       |
| Changes in interests in subsidiaries                                                             | —                                                      | 17,440        | —               | —                   | (15)                                   | (27)                      | 1                            | 17,399  | 8,241                     | 25,640                    |
| Derecognition of non-controlling interests due to loss of control of subsidiaries                | —                                                      | —             | —               | —                   | —                                      | —                         | —                            | —       | (1,974)                   | (1,974)                   |
| Acquisition of subsidiaries                                                                      | —                                                      | —             | —               | —                   | —                                      | —                         | —                            | —       | 795                       | 795                       |
| Issuance of common shares and acquisition of treasury shares under Employee Stock Ownership Plan | 2,500                                                  | 2,488         | (5,000)         | —                   | —                                      | —                         | —                            | (12)    | —                         | (12)                      |
| Issuance of convertible bonds with stock acquisition rights                                      | —                                                      | 4,175         | —               | —                   | —                                      | —                         | —                            | 4,175   | —                         | 4,175                     |
| Disposal of treasury shares                                                                      | —                                                      | (137)         | 799             | —                   | —                                      | —                         | —                            | 662     | —                         | 662                       |
| Acquisition of treasury shares                                                                   | —                                                      | —             | (4)             | —                   | —                                      | —                         | —                            | (4)     | —                         | (4)                       |
| Transfer of accumulated other comprehensive income to accumulated deficit                        | —                                                      | —             | —               | 2,224               | —                                      | (2,230)                   | 6                            | —       | —                         | —                         |
| Other                                                                                            | —                                                      | —             | —               | 18                  | —                                      | —                         | —                            | 18      | —                         | 18                        |
| <b>Balance at December 31, 2018</b>                                                              | 96,064                                                 | 118,626       | (8,205)         | (5,556)             | (659)                                  | (1,417)                   | 63                           | 198,916 | 9,598                     | 208,514                   |

## (4) Consolidated Statements of Cash Flows - Unaudited

*(In millions of yen)*

|                                                                                 | 2017          | 2018          |
|---------------------------------------------------------------------------------|---------------|---------------|
| <b>Cash flows from operating activities</b>                                     |               |               |
| Profit before tax from continuing operations                                    | 18,145        | 3,354         |
| (Loss)/profit before tax from discontinued operations                           | (19)          | 550           |
| Profit before tax                                                               | 18,126        | 3,904         |
| Adjustments for:                                                                |               |               |
| Depreciation and amortization expenses                                          | 7,149         | 11,135        |
| Finance income                                                                  | (257)         | (413)         |
| Finance costs                                                                   | 26            | 519           |
| Dividend income                                                                 | (69)          | (50)          |
| Share-based compensation expenses                                               | 2,686         | 2,528         |
| Gain on loss of control of subsidiaries and business transfer                   | (10,444)      | (24,794)      |
| (Gain)/loss on financial assets at fair value through profit or loss            | (1,026)       | 646           |
| Impairment loss of other intangible assets                                      | 214           | 212           |
| Impairment loss of available-for-sale financial assets                          | 1,761         | —             |
| Gain on disposal of available-for-sale financial assets                         | (751)         | —             |
| Share of loss of associates and joint ventures                                  | 6,321         | 11,148        |
| Dilution gains from changes in equity interest in associates and joint ventures | —             | (2,620)       |
| (Gain)/loss on foreign currency transactions, net                               | (182)         | 28            |
| Changes in:                                                                     |               |               |
| Trade and other receivables                                                     | (13,539)      | 2,344         |
| Contract assets                                                                 | —             | 97            |
| Inventories                                                                     | (2,366)       | (1,672)       |
| Trade and other payables                                                        | 6,215         | 6,653         |
| Accrued expenses                                                                | 2,642         | 7,082         |
| Contract liabilities                                                            | —             | 641           |
| Advances received                                                               | 6,338         | —             |
| Deferred revenue                                                                | (700)         | —             |
| Provisions                                                                      | 187           | 1,079         |
| Post-employment benefits                                                        | 2,054         | 940           |
| Other current assets                                                            | (2,860)       | (2,428)       |
| Other current liabilities                                                       | 1,311         | 2,917         |
| Others                                                                          | 232           | 504           |
| <b>Cash provided by operating activities</b>                                    | <b>23,068</b> | <b>20,400</b> |
| Interest received                                                               | 252           | 409           |
| Interest paid                                                                   | (32)          | (313)         |
| Dividend received                                                               | 98            | 82            |
| Payment of issuance costs for corporate bonds                                   | —             | (1,954)       |
| Income taxes paid                                                               | (12,421)      | (9,502)       |
| <b>Net cash provided by operating activities</b>                                | <b>10,965</b> | <b>9,122</b>  |

|                                                                                     | <i>(In millions of yen)</i> |                 |
|-------------------------------------------------------------------------------------|-----------------------------|-----------------|
|                                                                                     | <b>2017</b>                 | <b>2018</b>     |
| <b>Cash flows from investing activities</b>                                         |                             |                 |
| Purchases of time deposits                                                          | (1,282)                     | (13,443)        |
| Proceeds from maturities of time deposits                                           | 401                         | 13,843          |
| Purchase of equity investments                                                      | (4,880)                     | (5,022)         |
| Proceeds from sales of equity investments                                           | 1,672                       | 4,031           |
| Investments in debt instruments                                                     | (6,433)                     | (15,661)        |
| Proceeds from redemption of debt instruments                                        | 5,209                       | 1,841           |
| Acquisition of property and equipment and intangible assets                         | (12,622)                    | (20,939)        |
| Proceeds from disposal of property and equipment and intangible assets              | 472                         | 181             |
| Investments in associates and joint ventures                                        | (5,566)                     | (14,214)        |
| Return on capital from investments in associates                                    | —                           | 499             |
| Payments of office security deposits                                                | (1,112)                     | (4,130)         |
| Refund of office security deposits                                                  | 1,581                       | 447             |
| Payment of guarantee deposits                                                       | —                           | (800)           |
| Return of the office security deposits received under sublease agreement            | (19)                        | —               |
| Payments of the guarantee deposits for the Japanese Payment Services Act            | (530)                       | (130)           |
| Return of the guarantee deposits for the Japanese Payment Services Act              | 3,340                       | 765             |
| Payment of acquisition of subsidiaries and businesses                               | (11,887)                    | (188)           |
| Proceeds from acquisition of subsidiaries and businesses, net of cash acquired      | —                           | 736             |
| Cash disposed on loss of control of subsidiary and business transfer                | (581)                       | (2,043)         |
| Payments for loan receivables                                                       | (2,165)                     | (754)           |
| Collection of loan receivables                                                      | 124                         | 2,271           |
| Others                                                                              | 48                          | (174)           |
| <b>Net cash used in investing activities</b>                                        | <b>(34,230)</b>             | <b>(52,884)</b> |
| <b>Cash flows from financing activities</b>                                         |                             |                 |
| Proceeds from/(repayment) of short-term borrowings, net                             | (107)                       | —               |
| Proceeds from short-term borrowings                                                 | —                           | 1,050           |
| Repayment of short-term borrowings                                                  | —                           | (72)            |
| Repayment of long-term borrowing arrangement                                        | —                           | (11)            |
| Proceeds from issuance of corporate bonds                                           | —                           | 149,978         |
| Payments of common shares issuance costs                                            | (30)                        | (33)            |
| Proceeds from exercise of stock options                                             | 11,489                      | 1,002           |
| Payments for acquisition of interest in subsidiaries from non-controlling interests | (255)                       | (630)           |
| Capital contribution from non-controlling interests                                 | 343                         | 26,439          |
| Proceeds from disposal of treasury shares                                           | —                           | 662             |
| Others                                                                              | (1)                         | 16              |
| <b>Net cash provided by financing activities</b>                                    | <b>11,439</b>               | <b>178,401</b>  |
| <b>Net (decrease)/increase in cash and cash equivalents</b>                         | <b>(11,826)</b>             | <b>134,639</b>  |
| <b>Cash and cash equivalents at the beginning of the year</b>                       | <b>134,698</b>              | <b>123,606</b>  |
| Effect of exchange rate fluctuations on cash and cash equivalents                   | 734                         | (1,267)         |
| <b>Cash and cash equivalents at the end of the year</b>                             | <b>123,606</b>              | <b>256,978</b>  |

## **(5) Notes to going-concern assumptions - Unaudited**

Not applicable.

## **(6) Notes to Consolidated Financial Statements - Unaudited**

### **Changes in Significant Accounting Policies**

The following are the significant effects on the fiscal years ended December 31, 2017 and 2018 of the adoption of the new and revised IFRS issued by the International Accounting Standard Board (IASB) that are mandatorily effective for annual periods beginning on or after January 1, 2018.

New standards are effective for annual periods beginning on or after January 1, 2018.

#### **1. IFRS15 Revenue from Contracts with Customers**

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

The Group recognizes revenue associated with communication and content sales and with advertising services by reference to the stage of completion. The Group has concluded that the current methods of revenue recognition and measurement are in accordance with IFRS 15, with the exception of the following services.

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

##### **(1) LINE Stickers, Creator Stickers and Emoji (collectively, "Stickers")**

The new standard resulted in a change to the timing of revenue recognition, whereby revenue is recognized over an estimated usage period on a straight-line method rather than the previous method, which was over time but on an accelerated basis.

Under the previous standard, the Group determined that the measuring method which best depicts the progress towards satisfaction of performance based on a contract was the users' usage pattern of Stickers which represented the consumption of the user's benefits, and recognized revenue during the earlier part of the estimated usage period.

On the other hand, the concept of a service of standing ready is clarified under IFRS 15. IFRS 15 clarified the service of standing ready to mean to provide services or to make services available to the users for their use as and when the users decide. The Group has determined that Stickers which the Group provides to its users are similar to the concept of a service of standing ready. The performance obligation of the Group to the customers who are the users that purchased the Stickers is to make them available to the users for their use at any given time. Accordingly, the users receive the benefit of the services and consume such services as the Group makes the Stickers available to the users for their use. Therefore, the Group has determined that its performance obligation is evenly satisfied over time and assessed that a straight-line method over an estimated usage period is the best method to measure the progress towards complete satisfaction of the performance obligation. As a result, compared to the previous method, the amount of revenue recognized by the Group increased by 168 million yen, and the profit from operating activities increased by 162 million yen for the fiscal year ended December 31, 2018.

##### **(2) LINE Sponsored Stickers**

The new standard resulted in a change to the timing of revenue recognition, whereby revenue is recognized over a contract period on a straight-line method rather than the previous method, which was over time but on an accelerated basis.

Under the previous standard, the Group determined that the measuring method which best depicts the progress towards satisfaction of performance based on a contract was the users' usage pattern of Sponsored Stickers which represent its progress of rendering the services, and recognized revenue based on the users' usage pattern of Sponsored Stickers which was weighted towards the earlier part of the period.

On the other hand, under IFRS 15, the definition of a "customer" is clarified and it is defined as "a party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration." Also, the contract with "customers" is within the scope of IFRS 15, and IFRS 15 requires to measure the progress towards complete satisfaction of a performance obligation to "customers."

In the LINE Sponsored Stickers contract, only an advertiser is obligated to pay consideration for Sponsored Stickers service to the Group, and the users who use Sponsored Stickers do not pay any consideration to the Group directly or indirectly. Therefore, the Group has determined that the advertisers are “customers.” The performance obligation of the Group to the advertisers is to make the Sponsored Stickers available to the users for their use at any time over a contract period. Accordingly, the Group has assessed that a straight-line method over a contract period is the best method to measure the progress towards complete satisfaction of the performance obligation. As a result, compared to the previous method, the amount of revenue recognized by the Group increased by 304 million yen, and the profit from operating activities increased by 250 million yen for the fiscal year ended December 31, 2018.

### (3) LINE Point Ads

The new standard resulted in a change to the timing of revenue recognition, whereby the Group recognizes revenue at the time when the LINE Points are issued to the users rather than when the LINE Points are utilized by the users.

Under the previous standard, the portion of the revenue of LINE Point Ads service attributable to LINE Points was measured at the fair value of LINE Points, and revenue related to unused LINE Points at the end of the accounting period was deferred, while revenue related to redeemed LINE Points was recognized in accordance with the revenue recognition policy for the virtual item purchased.

On the other hand, the definition of a “customer” is clarified under IFRS 15 as mentioned above. Upon the adoption of the IFRS 15, the Group has determined that the advertisers are customers for LINE Point Ads services because only the advertisers pay the transaction prices consideration to the Group for the advertising services the Group provides and the users who receive LINE Points do not pay any transaction prices directly or indirectly. The Group considers its performance obligation in the contract with a customer who is an advertiser to be satisfied when the Group issues the LINE Points to the users because the Company does not have any obligations toward the advertisers to manage LINE Points or to provide users other services in exchange for the LINE points thereafter for the advertisers. As a result, the Group has determined to recognize revenue at the time when LINE Points are issued to the users.

Also, under IFRS 15, the Group recognizes provisions for the expenses expected to be incurred in relation to the consumption of LINE Points, and such expenses are recognized at the same time LINE Points are issued to the users and as the Group satisfies its performance obligations. As a result, compared to the previous method, the amount of revenue recognized by the Group increased by 84 million yen, and the profit from operating activities decreased by 218 million yen for the fiscal year ended December 31, 2018.

### (4) Advertising services

For advertising services such as Official Accounts, an advertising agency may be involved to obtain contracts from customers and provide, on behalf of the Company, services to customers such as formatting advertisement publications to comply with the Group’s specifications or standards of advertisement publication. In such transactions, the new standard will result in a change to the method of revenue recognition, whereby the Group will recognize revenue by the gross recognition where the Group recognizes consideration received from customers including the share of advertising agencies rather than net recognition where the Group recognizes consideration received from customers excluding the share of advertising agency.

Under the previous standard, the Company recognized revenue by excluding the share attributable to the advertising agency from the total consideration received from the customer due to the facts that the share of the advertising agency was identified as an individually identifiable element, that the Company did not directly provide the service and earned revenue at a constant rate, and that the Company did not bear credit risks.

On the other hand, IFRS 15 clarifies the evaluation of whether an entity is a principal or an agent based on the identification of performance obligations and transfer of control for the services. In particular, it is stated that “an entity is a principal if it controls the specified good or service before that good or service is transferred to a customer.” Guidance and indicators for whether an entity controls the specified goods or services to be provided by another parties to customers are revised. This revision of the guidance and indicators includes a right to a service to be performed by the other party which gives the entity the ability to direct that party to provide the service to the customer on the entity’s behalf. Since the service provided by advertising agencies such as formatting advertisement publication is provided to customers based on the Group’s specifications or standards of advertisement publication, the Group determined that the Group controls the service provided by the advertising agency and thus the Group is the principal. As a result, the Company determined to change the recognition method of revenue based on the total consideration received from a customer, including the service provided by the advertising agent. As a result, compared to the previous method, the amount of revenue recognized by the Group increased by 8,837 million yen for the fiscal year ended December 31, 2018.

Moreover, in accordance with IFRS 15, the Group recognizes costs of contracts which consist of consideration payable to the advertising agency as an asset and will expense as the related revenues are recognized. If the advertising contract is renewed at the end of the original term, another consideration payable to the advertising agency will be incurred, and such cost will be expensed during the period that is the same period for which the revenue of the advertising contract is recognized. Therefore, compared to the previous method, the sales commission expenses increased by 8,837 million yen for the fiscal year ended December 31, 2018. However, as

sales commission expenses increased by the same amount as the revenues, there is no effect on the profit from operating activities. As a result, the opening balance of accumulated deficit is adjusted as following.

(In millions of yen)

|                         | <b>January 1,<br/>2018</b> |
|-------------------------|----------------------------|
| Stickers                | (967)                      |
| LINE Sponsored Stickers | (760)                      |
| LINE Point Ads          | 667                        |
| Other                   | (63)                       |
| Total                   | <u>(1,123)</u>             |

The adjustments made to line items presented on the financial statements due to the change from IAS 18 Revenue and other standards applied previously (collectively, the IAS 18 and other) to IFRS 15 are as follows. Reclassifications are made to reflect the terms used under IFRS 15. Certain amounts previously presented in trade and other receivables related to advertising services are reclassified into contract assets, while certain amounts previously presented in advances received arising from LINE Points and in deferred revenue associated with LINE Stickers or advertising services are reclassified into other financial liabilities, current and contract liabilities.

(In millions of yen)

|                                        | <b>January 1, 2018<br/>(under IAS 18 and<br/>other)</b> | <b>Reclassification</b> | <b>Remeasurement</b> | <b>January 1, 2018<br/>(under IFRS 15)</b> |
|----------------------------------------|---------------------------------------------------------|-------------------------|----------------------|--------------------------------------------|
| Trade and other receivables            | 42,892                                                  | (437)                   | (792)                | 41,663                                     |
| Contract assets                        | —                                                       | 437                     | —                    | 437                                        |
| Other current assets                   | 7,438                                                   | —                       | 1,052                | 8,490                                      |
| Deferred tax assets                    | 16,492                                                  | —                       | 384                  | 16,876                                     |
| Other financial liabilities, current   | 28,003                                                  | 4,633                   | —                    | 32,636                                     |
| Contract liabilities                   | —                                                       | 22,588                  | 1,391                | 23,979                                     |
| Advances received                      | 17,975                                                  | (17,975)                | —                    | —                                          |
| Deferred revenue                       | 9,246                                                   | (9,246)                 | —                    | —                                          |
| Provision, current                     | 991                                                     | —                       | 472                  | 1,463                                      |
| Accumulated deficit                    | (4,294)                                                 | —                       | (1,123)              | (5,417)                                    |
| Accumulated other comprehensive income | 7,440                                                   | —                       | (8)                  | 7,432                                      |
| Non-controlling interests              | 4,902                                                   | —                       | (89)                 | 4,813                                      |

(In millions of yen)

|                                        | <b>December 31, 2018<br/>(under IAS 18 and<br/>other)</b> | <b>Reclassification</b> | <b>Remeasurement</b> | <b>December 31, 2018<br/>(under IFRS 15)</b> |
|----------------------------------------|-----------------------------------------------------------|-------------------------|----------------------|----------------------------------------------|
| Trade and other receivables            | 38,722                                                    | (339)                   | (789)                | 37,644                                       |
| Contract assets                        | —                                                         | 339                     | —                    | 339                                          |
| Other current assets                   | 8,464                                                     | —                       | 1,287                | 9,751                                        |
| Deferred tax assets                    | 16,746                                                    | —                       | 361                  | 17,107                                       |
| Other financial liabilities, current   | 30,364                                                    | 6,362                   | —                    | 36,726                                       |
| Contract liabilities                   | —                                                         | 23,539                  | 1,098                | 24,637                                       |
| Advances received                      | 20,575                                                    | (20,575)                | —                    | —                                            |
| Deferred revenue                       | 9,326                                                     | (9,326)                 | —                    | —                                            |
| Provision, current                     | 1,814                                                     | —                       | 767                  | 2,581                                        |
| Accumulated deficit                    | (4,543)                                                   | —                       | (1,013)              | (5,556)                                      |
| Accumulated other comprehensive income | (2,018)                                                   | —                       | 5                    | (2,013)                                      |
| Non-controlling interests              | 9,596                                                     | —                       | 2                    | 9,598                                        |

(In millions of yen)

|                                                                                                        | 2018<br>(under IAS 18 and<br>other) | Reclassification | Remeasurement | 2018<br>(under IFRS 15) |
|--------------------------------------------------------------------------------------------------------|-------------------------------------|------------------|---------------|-------------------------|
| Revenue and other operating income                                                                     |                                     |                  |               |                         |
| Revenues                                                                                               | 197,789                             | —                | 9,393         | 207,182                 |
| Other operating income                                                                                 | 28,099                              | —                | —             | 28,099                  |
| Revenue and other operating income<br>total                                                            | 225,888                             | —                | 9,393         | 235,281                 |
| Operating expenses                                                                                     |                                     |                  |               |                         |
| Payment processing and licensing<br>expenses                                                           | (30,811)                            | —                | (12)          | (30,823)                |
| Sales commission expenses                                                                              | (7,068)                             | —                | (8,892)       | (15,960)                |
| Employee compensation expenses                                                                         | (57,493)                            | —                | —             | (57,493)                |
| Marketing expenses                                                                                     | (20,311)                            | —                | —             | (20,311)                |
| Infrastructure and communication<br>expenses                                                           | (10,483)                            | —                | —             | (10,483)                |
| Outsourcing and other service expenses                                                                 | (31,825)                            | —                | —             | (31,825)                |
| Depreciation and amortization expenses                                                                 | (11,135)                            | —                | —             | (11,135)                |
| Other operating expenses                                                                               | (40,846)                            | —                | (295)         | (41,141)                |
| Operating expenses total                                                                               | (209,972)                           | —                | (9,199)       | (219,171)               |
| Profit from operating activities                                                                       | 15,916                              | —                | 194           | 16,110                  |
| Profit before tax from continuing<br>operations                                                        | 3,160                               | —                | 194           | 3,354                   |
| Income tax expenses                                                                                    | (9,463)                             | —                | (59)          | (9,522)                 |
| (Loss)/gain for the year from continuing<br>operations                                                 | (6,303)                             | —                | 135           | (6,168)                 |
| (Loss)/gain for the year                                                                               | (5,927)                             | —                | 135           | (5,792)                 |
| Attributable to:                                                                                       |                                     |                  |               |                         |
| The shareholders of the Company                                                                        | (3,852)                             | —                | 134           | (3,718)                 |
| Non-controlling interests                                                                              | (2,075)                             | —                | 1             | (2,074)                 |
| Earnings per share                                                                                     |                                     |                  |               | (In yen)                |
| Basic (loss)/profit for the period                                                                     |                                     |                  |               |                         |
| attributable to the shareholders of the<br>Company                                                     | (16.19)                             | —                | 0.57          | (15.62)                 |
| Diluted (loss)/profit for the period                                                                   |                                     |                  |               |                         |
| attributable to the shareholders of the<br>Company                                                     | (16.19)                             | —                | 0.57          | (15.62)                 |
| Earnings per share from continuing<br>operations                                                       |                                     |                  |               |                         |
| Basic (loss)/profit from continuing<br>operations attributable to the<br>shareholders of the Company   | (17.77)                             | —                | 0.57          | (17.20)                 |
| Diluted (loss)/profit from continuing<br>operations attributable to the<br>shareholders of the Company | (17.77)                             | —                | 0.57          | (17.20)                 |

Under the previous standard, the Group recognized considerations received from advertisers as advertising revenue after subtracting the share of advertising agencies. However, under IFRS 15, the Group recognizes such revenue by the gross recognition where the Group recognizes considerations received from advertisers including the portion for the services provided by the advertising agencies. As a result, the amount of expenses which were to be paid to the advertising agencies increased and became material. Therefore, the

“sales commission expenses” which were included in the “authentication and other service expenses” are presented separately in the Consolidated Financial Statement of Profit or Loss from the fiscal year ended December 31, 2018, and the remaining “authentication and other service expenses” is now presented as “outsourcing and other service expenses” as the materiality of authentication expenses decreased. The change was applied to the Consolidated Financial Statement of Profit or Loss for the fiscal year ended December 31, 2017.

## 2. IFRS 9 Financial Instruments

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

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

(In millions of yen)

| Balance as of January 1, 2018 under IFRS 9               |                                         |                                                                   |                                       |                                                |                                    |
|----------------------------------------------------------|-----------------------------------------|-------------------------------------------------------------------|---------------------------------------|------------------------------------------------|------------------------------------|
| Notes                                                    | Balance at January 1, 2018 under IAS 39 | Financial assets/liabilities at fair value through profit or loss | Financial assets/liabilities at FVOCI | Financial assets/liabilities at amortized cost | Total financial assets/liabilities |
| <b>Financial assets</b>                                  |                                         |                                                                   |                                       |                                                |                                    |
| <b>Trade and other receivables</b>                       |                                         |                                                                   |                                       |                                                |                                    |
| Loans and receivables                                    | 3                                       | 42,892                                                            | —                                     | 42,892                                         | 42,892                             |
| Total                                                    |                                         | 42,892                                                            | —                                     | 42,892                                         | 42,892                             |
| <b>Other financial assets, current</b>                   |                                         |                                                                   |                                       |                                                |                                    |
| Loans and receivables                                    |                                         |                                                                   |                                       |                                                |                                    |
| Time deposits                                            | 3                                       | 12,002                                                            | —                                     | 12,002                                         | 12,002                             |
| Short-term loans                                         | 3                                       | 206                                                               | —                                     | 206                                            | 206                                |
| Corporate bonds and other debt instruments               | 4                                       | 849                                                               | 852                                   | —                                              | 852                                |
| Available-for-sale financial assets                      |                                         | 6                                                                 | 6                                     | —                                              | 6                                  |
| Office security deposits                                 |                                         | 195                                                               | —                                     | 195                                            | 195                                |
| Total                                                    |                                         | 13,258                                                            | 858                                   | 12,403                                         | 13,261                             |
| <b>Other financial assets, non-current</b>               |                                         |                                                                   |                                       |                                                |                                    |
| Held-to-maturity investments                             | 6                                       | 280                                                               | —                                     | 280                                            | 280                                |
| Loans and receivables                                    |                                         |                                                                   |                                       |                                                |                                    |
| Corporate bonds and other debt instruments               | 4, 5                                    | 7,986                                                             | 28                                    | —                                              | 8,025                              |
| Guarantee deposits                                       | 3                                       | 726                                                               | —                                     | 726                                            | 726                                |
| Office security deposits                                 | 3                                       | 5,709                                                             | —                                     | 5,709                                          | 5,709                              |
| Financial assets at fair value through profit or loss    |                                         |                                                                   |                                       |                                                |                                    |
| Conversion right and redemption right of preferred stock |                                         | 1,862                                                             | —                                     | —                                              | 1,862                              |
| Available-for-sale financial assets                      | 1, 2                                    | 15,388                                                            | 10,126                                | —                                              | 15,388                             |
| Other                                                    |                                         | 133                                                               | 44                                    | 89                                             | 133                                |
| Total                                                    |                                         | 32,084                                                            | 18,167                                | 6,804                                          | 32,123                             |

## Impacts by adoption of IFRS 9

| Notes                                                    | Fair value measurement at January 1, 2018 |                              |               |
|----------------------------------------------------------|-------------------------------------------|------------------------------|---------------|
|                                                          |                                           | Provision at January 1, 2018 | Total impacts |
| <b>Financial assets</b>                                  |                                           |                              |               |
| <b>Trade and other receivables</b>                       |                                           |                              |               |
| Loans and receivables                                    | 3                                         | —                            | —             |
| Total                                                    |                                           | —                            | —             |
| <b>Other financial assets, current</b>                   |                                           |                              |               |
| Loans and receivables                                    |                                           |                              |               |
| Time deposits                                            | 3                                         | —                            | —             |
| Short-term loans                                         | 3                                         | —                            | —             |
| Corporate bonds and other debt instruments               | 4                                         | 6                            | 3             |
| Available-for-sale financial assets                      |                                           | —                            | —             |
| Office security deposits                                 |                                           | —                            | —             |
| Total                                                    |                                           | 6                            | 3             |
| <b>Other financial assets, non-current</b>               |                                           |                              |               |
| Held-to-maturity investments                             | 6                                         | —                            | —             |
| Loans and receivables                                    |                                           |                              |               |
| Corporate bonds and other debt instruments               | 4, 5                                      | 52                           | 39            |
| Guarantee deposits                                       | 3                                         | —                            | —             |
| Office security deposits                                 | 3                                         | —                            | —             |
| Financial assets at fair value through profit or loss    |                                           |                              |               |
| Conversion right and redemption right of preferred stock |                                           | —                            | —             |
| Available-for-sale financial assets                      | 1, 2                                      | —                            | —             |
| Other                                                    |                                           | —                            | —             |
| Total                                                    |                                           | 52                           | 39            |

(In millions of yen)

| Balance as of January 1, 2018 under IFRS 9                 |                                                  |                                                                               |                                             |                                                         |                                       |
|------------------------------------------------------------|--------------------------------------------------|-------------------------------------------------------------------------------|---------------------------------------------|---------------------------------------------------------|---------------------------------------|
| Notes                                                      | Balance at<br>January 1,<br>2018 under<br>IAS 39 | Financial<br>assets/liabilities<br>at fair value<br>through profit<br>or loss | Financial<br>assets/liabilities<br>at FVOCI | Financial<br>assets/liabilities<br>at amortized<br>cost | Total financial<br>assets/liabilities |
| <b>Financial liabilities</b>                               |                                                  |                                                                               |                                             |                                                         |                                       |
| <b>Trade and other payables</b>                            |                                                  |                                                                               |                                             |                                                         |                                       |
| Financial liabilities measured at amortized cost           | 3                                                | 28,810                                                                        | —                                           | —                                                       | 28,810                                |
| Total                                                      |                                                  | 28,810                                                                        | —                                           | —                                                       | 28,810                                |
| <b>Other financial liabilities, current</b>                |                                                  |                                                                               |                                             |                                                         |                                       |
| Financial liabilities measured at amortized cost           |                                                  |                                                                               |                                             |                                                         |                                       |
| Deposits received                                          |                                                  | 5,730                                                                         | —                                           | —                                                       | 5,730                                 |
| Short-term borrowings                                      |                                                  | 22,224                                                                        | —                                           | —                                                       | 22,224                                |
| Others                                                     |                                                  | 49                                                                            | —                                           | —                                                       | 49                                    |
| Total                                                      |                                                  | 28,003                                                                        | —                                           | —                                                       | 28,003                                |
| <b>Other financial liabilities non-current</b>             |                                                  |                                                                               |                                             |                                                         |                                       |
| Financial liabilities measured at amortized cost           |                                                  |                                                                               |                                             |                                                         |                                       |
| Office security deposits received under sublease agreement |                                                  | 23                                                                            | —                                           | —                                                       | 23                                    |
| Others                                                     |                                                  | 93                                                                            | —                                           | —                                                       | 93                                    |
| Financial liabilities at fair value through profit or loss |                                                  |                                                                               |                                             |                                                         |                                       |
| Put option liabilities                                     |                                                  | 486                                                                           | 486                                         | —                                                       | 486                                   |
| Total                                                      |                                                  | 602                                                                           | 486                                         | 116                                                     | 602                                   |

| Impacts by adoption of IFRS 9                              |                                                    |                                 |               |
|------------------------------------------------------------|----------------------------------------------------|---------------------------------|---------------|
| Notes                                                      | Fair value<br>measurement<br>at January 1,<br>2018 | Provision at<br>January 1, 2018 | Total impacts |
| <b>Financial liabilities</b>                               |                                                    |                                 |               |
| <b>Trade and other payables</b>                            |                                                    |                                 |               |
| Financial liabilities measured at amortized cost           | 3                                                  | —                               | —             |
| Total                                                      |                                                    | —                               | —             |
| <b>Other financial liabilities, current</b>                |                                                    |                                 |               |
| Financial liabilities measured at amortized cost           |                                                    |                                 |               |
| Deposits received                                          |                                                    | —                               | —             |
| Short-term borrowings                                      |                                                    | —                               | —             |
| Others                                                     |                                                    | —                               | —             |
| Total                                                      |                                                    | —                               | —             |
| <b>Other financial liabilities non-current</b>             |                                                    |                                 |               |
| Financial liabilities measured at amortized cost           |                                                    |                                 |               |
| Office security deposits received under sublease agreement |                                                    | —                               | —             |
| Others                                                     |                                                    | —                               | —             |
| Financial liabilities at fair value through profit or loss |                                                    |                                 |               |
| Put option liabilities                                     |                                                    | —                               | —             |
| Total                                                      |                                                    | —                               | —             |

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

(In millions of yen)

|                                                                                                                                                                               | Notes | Accumulated deficit | Accumulated other comprehensive income |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|---------------------|----------------------------------------|
| Balance of accumulated deficit and accumulated OCI as of January 1, 2018 under IAS 39                                                                                         |       | (4,294)             | 3,928                                  |
| Reclassification from available-for-sale financial assets to financial assets at fair value through profit or loss                                                            | 1     | 316                 | (316)                                  |
| Transfer of impairment losses arising from reclassification of available-for-sale financial assets to equity instruments at FVOCI and recognized previously in profit or loss | 2     | 1,000               | (1,000)                                |
| Fair value measurement of debt instruments classified from loans and receivables to financial assets at FVOCI as of January 1, 2018                                           | 4     | —                   | 42                                     |
| Increase in provision for debt instruments at FVOCI                                                                                                                           | 4     | (16)                | 16                                     |
| Adjustment to shareholders' equity from adoption of IFRS 9                                                                                                                    |       | 1,300               | (1,258)                                |
| Balance of accumulated deficit and accumulated OCI as of January 1, 2018 under IFRS 9                                                                                         |       | (2,994)             | 2,670                                  |

(1) Reclassification from available-for-sale financial assets to financial assets at fair value through profit or loss

The investments in private equity investment funds of 2,966 million yen and redeemable preferred stocks of unlisted companies of 2,296 million yen as of January 1, 2018, were reclassified from available-for-sale financial assets to financial assets at fair value through profit or loss as the cash flows from these investments did not represent solely payments of principal and interest on the principal amount outstanding. In addition, cumulative loss and its tax effects through fair value measurements of 259 million yen were reclassified from accumulated other comprehensive income to accumulated deficit.

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

The investments in listed equity securities and private equity and other financial instruments of 9,728 million yen as of January 1, 2018, were reclassified from available-for-sale financial assets to financial assets at FVOCI as the Group has made an irrevocable election for equity instruments as measured at FVOCI. In addition, related cumulative impairment loss and its tax effects of 1,000 million yen were reclassified from accumulated deficit to accumulated other comprehensive income.

The investments in corporate bonds of 402 million yen, and investments in partnerships of 2 million yen were reclassified from available-for-sale financial assets to financial assets at FVOCI as the cash flows from these investments represent solely payments of principal and interest on the principal amount outstanding, and the Group holds such investments for the purpose of collecting contractual cash flows through trading of the investments in our business model. Moreover, the amounts of expected credit losses arising from those financial assets as of January 1, 2018, were deemed immaterial.

(3) Reclassification from loans and receivables to financial assets at measured at amortized cost

Time deposits of 12,002 million yen, loans of 206 million yen, guarantee deposits of 726 million yen and office security deposits of 5,709 million yen as of January 1, 2018 were reclassified from loans and receivables to financial assets at amortized cost as the cash flows from these assets represent solely payments of principal and interest on the principal amount outstanding and as, in the Group's business model, the Group holds such assets for the purpose of collecting contractual cash flows. There was no effect to accumulated deficit and accumulated other comprehensive income as of January 1, 2018, due to the reclassification. Moreover, the amounts of expected credit losses arising from those financial assets as of January 1, 2018, were deemed immaterial.

(4) Reclassification from loans and receivables to financial assets at FVOCI

Corporate bonds of 8,807 million yen as of January 1, 2018 were reclassified from loans and receivables to debt instruments at FVOCI as the cash flows from these assets represent solely payments of principal and interest on the principal amount outstanding and as, in the Group's business model, the Group holds such assets for the purpose of collecting contractual cash flows through selling of these financial assets. Fair value gains and related tax effects of 42 million yen measured at January 1, 2018, were adjusted to the accumulated other comprehensive income. In addition, expected credit losses of 16 million yen measured at January 1, 2018 were recognized as a loss allowance provision and adjusted to accumulated other comprehensive income. The Group estimates a loss

allowance based on 12 months expected credit losses on debt instruments that are measured at FVOCI as the Group has judged that the risks for such investments are low.

(5) Reclassification from loans and receivables to financial assets at fair value through profit or loss

Convertible bonds of 28 million yen as of January 1, 2018, were reclassified from loans and receivables to financial assets at fair value through profit or loss as the cash flow did not represent solely payments of principal and interest on the principal amount outstanding. There was no effect to accumulated deficit and accumulated other comprehensive income as of January 1, 2018, due to the reclassification.

(6) Reclassification from held-to-maturity financial assets to financial assets at measured at amortized cost

Japanese government bonds of 280 million yen as of January 1, 2018, were reclassified from loans and receivables to financial assets at amortized cost as the cash flows from these financial assets represent solely payments of principal and interest on the principal amount outstanding and as, in the Group's business model, the Group held such assets for the purpose of collecting contractual cash flows. There was no effect to accumulated deficit and accumulated other comprehensive income at January 1, 2018, due to the reclassification. The amounts of expected credit losses arising from those financial assets as of January 1, 2018, were deemed immaterial.

## Segment Information

The Group identifies operating segments based on the internal report regularly reviewed by the Group's Chief Operating Decision Maker to make decisions about resources to be allocated to segments and assess performance. An operating segment of the Group is a component for which discrete financial information is available. The Chief Operating Decision Maker has been identified as the Company's board of directors. No operating segments have been aggregated to form the reportable segments.

In 2018, the Group changed its operating segment from one component to two components as its budget has been prepared based on the Core business and Strategic business and as the Company's board of directors changed the unit of components to assess the performance of the Group from a single segment to two segments, Core business segment and Strategic business segment.

Under the corporate strategy to allocate the resources generated from the Core business to the Strategic business, the Company's board of directors individually assesses the business performance of the Core business based on the growth of revenue and profitability and of the Strategic business based on profitability as well as important non-financial KPIs such as the expansion of user base.

### (1) Description of Reportable Segments

The Group's reportable segments are as follows:

|                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|----------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Core business segment      | Core business segment mainly consists of advertising service, communication and content. Advertising services mainly include display advertising, account advertising, and other advertising. Display advertising provides advertisements on services such as LINE NEWS. Account advertising mainly includes LINE Official Accounts and Sponsored Stickers. Other advertising mainly includes advertisements on services such as livedoor blog, NAVER Matome and advertisements appearing on LINE Part Time Job. Communication mainly includes LINE Stickers. Content mainly includes LINE Games. |
| Strategic business segment | Strategic business segment consists of Fintech services, such as LINE Pay service, and other services such as AI, LINE Friends, and E-commerce.                                                                                                                                                                                                                                                                                                                                                                                                                                                   |

### (2) Profit or Loss for the Group's operating segments

The Group's operating profit for each segment is prepared in the same method as the consolidated financial statements, except that certain items such as other operating income and share-based compensation expenses are included in corporate expenses. Also, IT development expenses and indirect expenses such as department management fees are allocated based on the information such as the hours of service provided, the number of server infrastructures used to provide the service, or the percentage of revenues. As the Company's board of directors uses the information after eliminating intercompany transactions for their performance assessment, there is no adjustment between segments.

From the fiscal year of 2018, the Group divided its operating segment into Core business segment and Strategic business segment, as the Company's board of directors assesses performance based on these components. From the fiscal year 2018, the Group monitors its profit and loss by segment. The profit and loss of each segment in fiscal year 2017 was prepared mainly based on the same method as in fiscal year 2018 where practicable and restated accordingly.

**For the year ended December 31, 2017**

(In millions of yen)

|                                                | Reportable segments |                    |         | Corporate adjustments <sup>(1)</sup> | Consolidated |
|------------------------------------------------|---------------------|--------------------|---------|--------------------------------------|--------------|
|                                                | Core business       | Strategic business | Total   |                                      |              |
| Revenue from external customers <sup>(2)</sup> | 149,156             | 17,991             | 167,147 | —                                    | 167,147      |
| Segment profit/(loss) <sup>(3)</sup>           | 34,250              | (17,674)           | 16,576  | 8,502                                | 25,078       |
| Depreciation and amortization expenses         | 6,252               | 897                | 7,149   | —                                    | 7,149        |

<sup>(1)</sup> Corporate adjustments mainly include other operating income and share-based compensation expenses.

<sup>(2)</sup> Revenue from external customers for the year ended December 31, 2017 is presented based on IAS 18, while the Group's operating profit for each segment for the year ended December 31, 2018 is presented under IFRS 15. standards.

<sup>(3)</sup> The amount of "Segment profit/(loss)" is equivalent to Profit from operating activities on Consolidated Statement of Profit or Loss.

**For the year ended December 31, 2018**

(In millions of yen)

|                                        | Reportable segments |                    |         | Corporate adjustments <sup>(1)</sup> | Consolidated |
|----------------------------------------|---------------------|--------------------|---------|--------------------------------------|--------------|
|                                        | Core business       | Strategic business | Total   |                                      |              |
| Revenue from external customers        | 178,398             | 28,784             | 207,182 | —                                    | 207,182      |
| Segment profit/(loss) <sup>(2)</sup>   | 26,559              | (34,931)           | (8,372) | 24,482                               | 16,110       |
| Depreciation and amortization expenses | 8,832               | 2,303              | 11,135  | —                                    | 11,135       |

<sup>(1)</sup> Corporate adjustments mainly include other operating income and share-based compensation expenses.

<sup>(2)</sup> The amount of "Segment profit/(loss)" is equivalent to Profit from operating activities on Consolidated Statement of Profit or Loss.

The reconciliation of segment profit to profit before tax from continuing operations is as follows:

(In millions of yen)

|                                                | 2017    | 2018     |
|------------------------------------------------|---------|----------|
| Segment profit                                 | 25,078  | 16,110   |
| Financial income                               | 257     | 413      |
| Financial costs                                | (26)    | (519)    |
| Share of loss of associates and joint ventures | (6,321) | (11,148) |
| Loss on foreign currency transactions, net     | (818)   | (902)    |
| Other non-operating income                     | 1,963   | 869      |
| Other non-operating expenses                   | (1,988) | (1,469)  |
| Profit before tax from continuing operations   | 18,145  | 3,354    |

The above items are not allocated to individual segments as these are managed on an overall group basis.

### (3) Revenues from Major Services

The Group's revenues from continuing operations from its major services for the years ended December 31, 2017 and 2018 are as follows. Revenues for the year ended December 31, 2017 are presented using IAS 18 as the Group uses the modified retrospective method in the adoption of IFRS 15.

Revenues recognized at a point in time mainly consist of revenues from LINE Friends.

|                                    | <i>(In millions of yen)</i> |             |
|------------------------------------|-----------------------------|-------------|
|                                    | <b>2017</b>                 | <b>2018</b> |
| Core business                      |                             |             |
| Advertising                        |                             |             |
| Display advertising <sup>(1)</sup> | 26,609                      | 36,221      |
| Account advertising <sup>(2)</sup> | 38,929                      | 56,714      |
| Other advertising <sup>(3)</sup>   | 10,433                      | 15,302      |
| Sub-total                          | 75,971                      | 108,237     |
| Communication, content, and others |                             |             |
| Communication <sup>(4)</sup>       | 30,225                      | 28,527      |
| Content <sup>(5)</sup>             | 40,144                      | 38,237      |
| Others                             | 2,816                       | 3,397       |
| Subtotal                           | 73,185                      | 70,161      |
| Core business total                | 149,156                     | 178,398     |
| Strategic business                 |                             |             |
| Friends <sup>(6)</sup>             | 12,299                      | 19,579      |
| Others <sup>(7)</sup>              | 5,692                       | 9,205       |
| Strategic business total           | 17,991                      | 28,784      |
| Total                              | 167,147                     | 207,182     |

(1) Revenues from display advertising primarily consisted of fees from advertisement on services such as Timeline and LINE NEWS.

(2) Revenues from account advertising primarily consisted of fees from LINE Official Accounts, Sponsored Stickers and LINE Points.

(3) Revenues from other advertising were mainly attributable to advertising revenue from livedoor, NAVER Matome and LINE Part Time Job.

(4) Revenues from communication were mainly attributable to sales of LINE Stickers and Creator Stickers.

(5) Revenues from content primarily consisted of sales of LINE GAMES's virtual items.

(6) Friends primarily consisted of revenues from sales of character goods.

(7) Others primarily consisted of revenues from LINE Mobile service and E-commerce.

### Earnings per Share

The profit or loss for the period and the weighted average number of shares used in the calculation of earnings per share are as follows:

|                                                                                                                                | <i>(In millions of yen, except number of shares)</i> |             |
|--------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------|-------------|
|                                                                                                                                | <b>2017</b>                                          | <b>2018</b> |
| Profit/(loss) for the year attributable to the shareholders of the Company from continuing operations .....                    | 8,091                                                | (4,094)     |
| (Loss)/profit for the year attributable to the shareholders of the Company from discontinued operations.....                   | (13)                                                 | 376         |
| Total profit/(loss) for the year attributable to the shareholders of the Company for basic and diluted earnings per share..... | 8,078                                                | (3,718)     |
| Weighted average number of total common shares .....                                                                           | 221,405,391                                          | 239,761,603 |
| Weighted average number of total treasury shares .....                                                                         | (459,843)                                            | (1,686,797) |

|                                                                                            |             |             |
|--------------------------------------------------------------------------------------------|-------------|-------------|
| Weighted average number of total common shares for basic earnings per share ...            | 220,945,548 | 238,074,806 |
| Effect of dilution:                                                                        |             |             |
| Stock options .....                                                                        | 16,559,789  | —           |
| Employee Stock Ownership Plan (J-ESOP) .....                                               | 47,369      | —           |
| Convertible bonds with stock acquisition rights .....                                      | —           | —           |
| Weighted average number of total common shares adjusted for<br>the effect of dilution..... | 237,552,706 | 238,074,806 |

In calculating diluted earnings per share, share options outstanding and other potential shares are taken into account where their impact is dilutive.

Potential common shares used in the calculation of diluted earnings per share for the year ended December 31, 2017, included options and Employee Stock Ownership Plan (J-ESOP), representing 5,828,302 shares which were outstanding as of December 31, 2017 as they had a dilutive impact on profit per share from continuing operations.

Potential common shares that were excluded from the calculation of diluted earnings per share for the year ended December 31, 2018, included options, Employee Stock Ownership Plan (J-ESOP) and Convertible bonds with stock acquisition rights, representing 23,902,127 shares which were outstanding as of December 31, 2018 as they had anti-dilutive impact on earnings per share from continuing operations.

Moreover, the Company has issued 1,007,810 and 1,172,332 of new common shares through a third-party allotment in accordance with the introduction of the Employee Stock Ownership Plan (J-ESOP) on July 18, 2017 and April 25, 2018, respectively.

#### **Significant Subsequent events**

Not applicable.