

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.

October 24, 2018

**LINE Corporation Announces Summary of  
Consolidated Financial Results  
for the Nine Months Ended September 30, 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 nine months ended September 30, 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  
 Contact: Kokan Ki, Executive Officer and Head of Finance and Accounting  
 Telephone: +81-3-4316-2050  
 Filing date of quarterly securities report: November 8, 2018  
 Payment date of dividends: –  
 Supplemental materials prepared on quarterly 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 first nine months of 2018 (from January 1, 2018 to September 30, 2018)**

**(1) Consolidated operating results (cumulative)**

(Percentages indicate year-on-year changes.)

|                           | Revenues        |      | Profit from operating activities |        | Profit before income taxes |      | Profit for the period |       |
|---------------------------|-----------------|------|----------------------------------|--------|----------------------------|------|-----------------------|-------|
| For the nine months ended | Millions of yen | %    | Millions of yen                  | %      | Millions of yen            | %    | Millions of yen       | %     |
| September 30, 2018        | 151,211         | 24.7 | 6,745                            | (72.4) | (226)                      | –    | (7,690)               | –     |
| September 30, 2017        | 121,233         | 17.4 | 24,479                           | 33.8   | 21,198                     | 38.9 | 12,184                | 114.3 |

|                           | Profit attributable to the shareholders of the Company |       | Comprehensive income for the period |       | Basic earnings per share | Diluted earnings per share |
|---------------------------|--|-------|-------------------------------------|-------|--------------------------|----------------------------|
| For the nine months ended | Millions of yen  | %     | Millions of yen                     | %     | Yen                      | Yen                        |
| September 30, 2018        | (6,068)  | –     | (9,696)                             | –     | (25.50)                  | (25.50)                    |
| September 30, 2017        | 12,074   | 127.2 | 13,334                              | 207.9 | 55.09                    | 50.90                      |

## (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 |
|--------------------|-----------------|-----------------|--|---|
| As of              | Millions of yen | Millions of yen | Millions of yen  | %   |
| September 30, 2018 | 480,803         | 211,565         | 198,505  | 41.3  |
| December 31, 2017  | 303,439         | 189,977         | 185,075  | 61.0  |

## 2. Cash dividends

|  | Annual dividends per share |                    |                   |                 |       |
|--|----------------------------|--------------------|-------------------|-----------------|-------|
|  | First quarter-end          | Second quarter-end | Third quarter-end | Fiscal year-end | Total |
|  | Yen                        | Yen                | Yen               | Yen             | Yen   |
| For the year ended December 31, 2017             | —                          | 0.00               | —                 | 0.00            | 0.00  |
| For the year ending December 31, 2018            | —                          | 0.00               | —                 |                 |       |
| For the year ending December 31, 2018 (Forecast) |                            |                    |                   | —               | —     |

Note: Revisions to the cash dividends forecasts most recently announced: None  
Cash dividend forecasts for the year ending December 31, 2018: The Company has not yet made a decision regarding its year-end dividends.

## 3. Consolidated earnings forecasts for 2018 (from January 1, 2018 to December 31, 2018)

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 current period (changes in specified subsidiaries resulting in change in scope of consolidation): Yes  
(Number of newly added specified subsidiary): 1  
(Name of specified subsidiary): LINE Financial Corporation

(2) Changes in accounting policies and estimates

- Changes in accounting policies due to revisions in accounting standards under IFRS: Yes
- Changes in accounting policies due to other reasons: None
- Changes in accounting estimates: None

From FY 2018, the Group has adopted IFRS 15 Revenue from Contracts with Customers, 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)

- Total number of common shares issued and outstanding at the end of the period (including treasury shares)
  - As of September 30, 2018 240,301,642 shares
  - As of December 31, 2017 238,496,810 shares
- Number of treasury shares at the end of the period
  - As of September 30, 2018 2,005,818 shares
  - As of December 31, 2017 1,007,710 shares

- c. Average number of common shares outstanding during the period (cumulative from the beginning of the fiscal year)

|  |                    |
|--|--------------------|
| For the nine months ended September 30, 2018 | 237,945,107 shares |
| For the nine months ended September 30, 2017 | 219,178,184 shares |

\* Information regarding the quarterly review procedures

Reports of quarterly financial results are exempt from quarterly consolidated financial statements review conducted by certified public accountants or an audit corporation, in accordance with the Financial Instruments and Exchange Act.

Supplementary information to this earnings release will be available today at the following IR website: <https://linecorp.com/ja/ir/top>.

# 1 Interim condensed consolidated financial statements

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

(In millions of yen)

|   | December 31,<br>2017 | September 30,<br>2018 |
|---|----------------------|-----------------------|
| <b>Assets</b>   |                      |                       |
| <b>Current assets</b>   |                      |                       |
| Cash and cash equivalents.....                                | 123,606              | 260,422               |
| Trade and other receivables.....                              | 42,892               | 40,303                |
| Other financial assets, current.....                          | 13,258               | 17,288                |
| Contract assets.....  | —                    | 306                   |
| Inventories.....  | 3,455                | 6,063                 |
| Other current assets.....                                     | 7,438                | 9,764                 |
| <b>Total current assets</b>                                   | <b>190,649</b>       | <b>334,146</b>        |
| <b>Non-current assets</b>                                     |                      |                       |
| Property and equipment.....                                   | 15,125               | 23,166                |
| Goodwill.....   | 16,767               | 17,008                |
| Other intangible assets.....                                  | 6,486                | 6,231                 |
| Investments in associates and joint ventures.....             | 24,844               | 37,858                |
| Other financial assets, non-current.....                      | 32,084               | 45,313                |
| Deferred tax assets.....                                      | 16,492               | 16,183                |
| Other non-current assets.....                                 | 992                  | 898                   |
| <b>Total non-current assets</b>                               | <b>112,790</b>       | <b>146,657</b>        |
| <b>Total assets</b>   | <b>303,439</b>       | <b>480,803</b>        |
| <b>Liabilities</b>  |                      |                       |
| <b>Current liabilities</b>                                    |                      |                       |
| Trade and other payables.....                                 | 28,810               | 32,421                |
| Other financial liabilities, current.....                     | 28,003               | 32,636                |
| Accrued expenses.....   | 12,087               | 14,824                |
| Income tax payables.....                                      | 2,365                | 3,675                 |
| Contract liabilities.....                                     | —                    | 25,284                |
| Advances received.....  | 17,975               | —                     |
| Deferred revenue.....   | 9,246                | —                     |
| Provisions, current.....                                      | 991                  | 2,326                 |
| Other current liabilities.....                                | 1,940                | 3,589                 |
| <b>Total current liabilities</b>                              | <b>101,417</b>       | <b>114,755</b>        |
| <b>Non-current liabilities</b>                                |                      |                       |
| Corporate bonds.....  | —                    | 141,925               |
| Other financial liabilities, non-current.....                 | 602                  | 279                   |
| Deferred tax liabilities.....                                 | 1,573                | 1,291                 |
| Provisions, non-current.....                                  | 3,060                | 3,057                 |
| Post-employment benefits.....                                 | 6,162                | 6,798                 |
| Other non-current liabilities.....                            | 648                  | 1,133                 |
| <b>Total non-current liabilities</b>                          | <b>12,045</b>        | <b>154,483</b>        |
| <b>Total liabilities</b>                                      | <b>113,462</b>       | <b>269,238</b>        |
| <b>Shareholders' equity</b>                                   |                      |                       |
| Share capital.....  | 92,369               | 95,733                |
| Share premium.....  | 93,560               | 117,004               |
| Treasury shares.....  | (4,000)              | (8,308)               |
| Accumulated deficit.....                                      | (4,294)              | (10,161)              |
| Accumulated other comprehensive income.....                   | 7,440                | 4,237                 |
| <b>Equity attributable to the shareholders of the Company</b> | <b>185,075</b>       | <b>198,505</b>        |
| <b>Non-controlling interests</b>                              | <b>4,902</b>         | <b>13,060</b>         |
| <b>Total shareholders' equity</b>                             | <b>189,977</b>       | <b>211,565</b>        |
| <b>Total liabilities and shareholders' equity</b>             | <b>303,439</b>       | <b>480,803</b>        |

## (2) Interim Condensed Consolidated Statement of Profit or Loss - Unaudited

(In millions of yen)

|  | For the nine-month period ended September 30,<br>2017 | 2018             |
|--|---|------------------|
| <b>Revenues and other operating income:</b>                    |   |                  |
| Revenues   | 121,233   | 151,211          |
| Other operating income   | 11,515  | 11,222           |
| <b>Total revenues and other operating income</b>               | <b>132,748</b>  | <b>162,433</b>   |
| <b>Operating expenses:</b>                                     |   |                  |
| Payment processing and licensing expenses                      | (22,320)  | (22,650)         |
| Sales commission expenses                                      | (447)   | (11,081)         |
| Employee compensation expenses                                 | (30,064)  | (42,106)         |
| Marketing expenses   | (10,396)  | (14,362)         |
| Infrastructure and communication expenses                      | (6,610)   | (7,764)          |
| Outsourcing and other service expenses                         | (16,774)  | (23,014)         |
| Depreciation and amortization expenses                         | (4,887)   | (7,852)          |
| Other operating expenses                                       | (16,771)  | (26,859)         |
| <b>Total operating expenses</b>                                | <b>(108,269)</b>                                      | <b>(155,688)</b> |
| <b>Profit from operating activities</b>                        | <b>24,479</b>   | <b>6,745</b>     |
| Finance income   | 136   | 298              |
| Finance costs  | (18)  | (326)            |
| Share of loss of associates and joint ventures                 | (4,308)   | (7,311)          |
| (Loss)/gain on foreign currency transactions, net              | (295)   | 72               |
| Other non-operating income                                     | 1,268   | 317              |
| Other non-operating expenses                                   | (64)  | (21)             |
| <b>Profit/(loss) before tax from continuing operations</b>     | <b>21,198</b>   | <b>(226)</b>     |
| Income tax expenses  | (9,003)   | (7,467)          |
| <b>Profit/(loss) for the period from continuing operations</b> | <b>12,195</b>   | <b>(7,693)</b>   |
| (Loss)/profit from discontinued operations, net of tax         | (11)  | 3                |
| <b>Profit/(loss) for the period</b>                            | <b>12,184</b>   | <b>(7,690)</b>   |
| Attributable to:   |   |                  |
| The shareholders of the Company                                | 12,074  | (6,068)          |
| Non-controlling interests                                      | 110   | (1,622)          |

(In yen)

|  |        |         |
|--|--------|---------|
| <b>Earnings per share</b>  |        |         |
| Basic profit/(loss) for the period attributable to the shareholders of the Company                 | 55.09  | (25.50) |
| Diluted profit/(loss) for the period attributable to the shareholders of the Company               | 50.90  | (25.50) |
| Earnings per share from continuing operations  |        |         |
| Basic profit/(loss) from continuing operations attributable to the shareholders of the Company     | 55.14  | (25.51) |
| Diluted profit/(loss) from continuing operations attributable to the shareholders of the Company   | 50.95  | (25.51) |
| Earnings per share from discontinued operations  |        |         |
| Basic (loss)/profit from discontinued operations attributable to the shareholders of the Company   | (0.05) | 0.01    |
| Diluted (loss)/profit from discontinued operations attributable to the shareholders of the Company | (0.05) | 0.01    |

## (3) Interim Condensed Consolidated Statement of Comprehensive Income - Unaudited

(In millions of yen)

|  | For the nine-month period ended September 30, |                |
|--|---|----------------|
|  | 2017  | 2018           |
| <b>Profit/(loss) for the period</b>  | 12,184  | (7,690)        |
| <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                             | —   | (935)          |
| Income tax relating to items that will not be reclassified to profit or loss         | —   | 283            |
| <b>Items that may be reclassified to profit or loss:</b>                             |   |                |
| Debt instruments at FVOCI:   |   |                |
| Net changes in fair value  | —   | 6              |
| Available-for-sale financial assets  |   |                |
| Net changes in fair value  | 1,958   | —              |
| Reclassification to profit or loss   | (664)   | 6              |
| Exchange differences on translation of foreign operations:                           |   |                |
| Gain/(loss) arising during the period  | 213   | (1,213)        |
| Reclassification to profit or loss   | (13)  | (107)          |
| Proportionate share of other comprehensive income of associates and joint ventures   | 4   | 37             |
| Reclassification to profit or loss   | —   | (8)            |
| Income tax relating to items that may be reclassified subsequently to profit or loss | (348)   | (75)           |
| <b>Total other comprehensive income/(loss) for the period, net of tax</b>            | <u>1,150</u>                                  | <u>(2,006)</u> |
| <b>Total comprehensive income/(loss) for the period, net of tax</b>                  | <u>13,334</u>                                 | <u>(9,696)</u> |
| Attributable to:   |   |                |
| The shareholders of the Company  | 13,212  | (8,078)        |
| Non-controlling interests  | 122   | (1,618)        |

## (4) Interim Condensed Consolidated Statement of Change in Equity - Unaudited

(In millions of yen)

|  | Equity attributable to the shareholders of the Company |               |                 |                     |  |                            |                              |         |
|--|--|---------------|-----------------|---------------------|--|----------------------------|------------------------------|---------|
|  |  |               |                 |                     | Accumulated other comprehensive income |                            |                              |         |
|  | Share capital  | Share premium | Treasury shares | Accumulated deficit | Foreign currency translation reserve   | Available-for-sale reserve | Defined benefit plan reserve | Total   |
| Balance at January 1, 2017   | 77,856   | 91,208        | —               | (12,381)            | (174)                                  | 5,649                      | (1,324)                      | 160,834 |
| Comprehensive income   |  |               |                 |                     |  |                            |                              |         |
| Profit for the period  | —  | —             | —               | 12,074              | —                                      | —                          | —                            | 12,074  |
| Other comprehensive income   | —  | —             | —               | —                   | 189                                    | 949                        | —                            | 1,138   |
| Total comprehensive income for the period  | —  | —             | —               | 12,074              | 189                                    | 949                        | —                            | 13,212  |
| Recognition of share-based payments  | —  | 1,273         | —               | —                   | —                                      | —                          | —                            | 1,273   |
| Forfeiture of stock options  | —  | (8)           | —               | 8                   | —                                      | —                          | —                            | —       |
| Exercise of stock options  | 2,516  | (498)         | —               | —                   | —                                      | —                          | —                            | 2,018   |
| Changes in interests in subsidiaries   | —  | (52)          | —               | —                   | 2                                      | —                          | —                            | (50)    |
| Acquisition of subsidiaries  | —  | —             | —               | —                   | —                                      | —                          | —                            | —       |
| Issuance of common shares and acquisition of treasury shares under Employee Stock Ownership Plan | 2,000  | 1,990         | (4,000)         | —                   | —                                      | —                          | —                            | (10)    |
| Balance at September 30, 2017  | 82,372   | 93,913        | (4,000)         | (299)               | 17                                     | 6,598                      | (1,324)                      | 177,277 |

|  | Non-controlling interests | Total shareholders' equity |
|--|---------------------------|----------------------------|
| <b>Balance at January 1, 2017</b>  | 189                       | 161,023                    |
| <b>Comprehensive income</b>  |                           |                            |
| Profit for the period  | 110                       | 12,184                     |
| Other comprehensive income   | 12                        | 1,150                      |
| <b>Total comprehensive income for the period</b>   | 122                       | 13,334                     |
| Recognition of share-based payments  | —                         | 1,273                      |
| Forfeiture of stock options  | —                         | —                          |
| Exercise of stock options  | —                         | 2,018                      |
| Changes in interests in subsidiaries   | 15                        | (35)                       |
| Acquisition of subsidiaries  | 3,638                     | 3,638                      |
| Issuance of common shares and acquisition of treasury shares under Employee Stock Ownership Plan | —                         | (10)                       |
| <b>Balance at September 30, 2017</b>   | 3,964                     | 181,241                    |

## (4) Interim Condensed 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   |
|  |  |               |                 |                     | 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 |
| Adjustment on adoption of new accounting standards   | —  | —             | —               | 177                 | —                                      | (1,258)                   | —                            | (1,081) |
| <b>Balance at January 1, 2018 (restated)</b>   | 92,369   | 93,560        | (4,000)         | (4,117)             | 3,158                                  | 2,670                     | 354                          | 183,994 |
| <b>Comprehensive income</b>  |  |               |                 |                     |  |                           |                              |         |
| Loss for the period  | —  | —             | —               | (6,068)             | —                                      | —                         | —                            | (6,068) |
| Other comprehensive income   | —  | —             | —               | —                   | (1,373)                                | (637)                     | —                            | (2,010) |
| <b>Total comprehensive income for the period</b>   | —  | —             | —               | (6,068)             | (1,373)                                | (637)                     | —                            | (8,078) |
| Recognition of share-based payments  | —  | 991           | —               | —                   | —                                      | —                         | —                            | 991     |
| Forfeiture of stock options  | —  | (24)          | —               | 24                  | —                                      | —                         | —                            | —       |
| Exercise of stock options  | 864  | (109)         | —               | —                   | —                                      | —                         | —                            | 755     |
| Changes in interests in subsidiaries   | —  | 16,059        | —               | —                   | 71                                     | (7)                       | 1                            | 16,124  |
| Acquisition of subsidiaries  | —  | —             | —               | —                   | —                                      | —                         | —                            | —       |
| Issuance of common shares and acquisition of treasury shares under Employee Stock Ownership Plan | 2,500  | 2,488         | (5,000)         | —                   | —                                      | —                         | —                            | (12)    |
| Issuance of convertible bonds with stock acquisition rights                                      | —  | 4,175         | —               | —                   | —                                      | —                         | —                            | 4,175   |
| Disposal of treasury shares  | —  | (136)         | 696             | —                   | —                                      | —                         | —                            | 560     |
| Acquisition of treasury shares   | —  | —             | (4)             | —                   | —                                      | —                         | —                            | (4)     |
| <b>Balance at September 30, 2018</b>   | 95,733   | 117,004       | (8,308)         | (10,161)            | 1,856                                  | 2,026                     | 355                          | 198,505 |

|  | Non-controlling interests | Total shareholders' equity |
|--|---------------------------|----------------------------|
| <b>Balance at January 1, 2018</b>  | 4,902                     | 189,977                    |
| Adjustment on adoption of new accounting standards   | (85)                      | (1,166)                    |
| <b>Balance at January 1, 2018 (restated)</b>   | 4,817                     | 188,811                    |
| <b>Comprehensive income</b>  |                           |                            |
| Loss for the period  | (1,622)                   | (7,690)                    |
| Other comprehensive income   | 4                         | (2,006)                    |
| <b>Total comprehensive income for the period</b>   | (1,618)                   | (9,696)                    |
| Recognition of share-based payments  | —                         | 991                        |
| Forfeiture of stock options  | —                         | —                          |
| Exercise of stock options  | —                         | 755                        |
| Changes in interests in subsidiaries   | 9,560                     | 25,684                     |
| Acquisition of subsidiaries  | 301                       | 301                        |
| Issuance of common shares and acquisition of treasury shares under Employee Stock Ownership Plan | —                         | (12)                       |
| Issuance of convertible bonds with stock acquisition rights                                      | —                         | 4,175                      |
| Disposals of treasury shares   | —                         | 560                        |
| Acquisition of treasury shares   | —                         | (4)                        |
| <b>Balance at September 30, 2018</b>   | 13,060                    | 211,565                    |



## **(5) Notes to Interim Condensed Consolidated Financial Statements – Unaudited**

### **Notes for change in significant accounting policies**

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2017, except for the adoption of new standards effective as of January 1, 2018.

The adoption of new and revised IFRS issued by the International Accounting Standards Board that are mandatorily effective for an accounting period that begins on or after January 1, 2018 had no impact on the Group's unaudited interim condensed consolidated financial statements as of and for the nine-month periods ended September 30, 2017 and 2018 and annual consolidated financial statements as of December 31, 2017, except for the following standards.

#### **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 is to record cumulative amount of the impact at the beginning balance of the retained earnings upon adoption.

##### **(1) LINE Stickers, Creator Stickers and Emoji (collectively, "The 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 as to provide services or to make services available to the users for their use as and when the users decide. The Group determines 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 which are the users who 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 determines 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 144 million yen, and the operating profit from operating activities increased by 136 million yen for the nine-month ended September 30, 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 Sponsors Stickers which represent its progress of rendering the services, and recognized revenue based on the users usage pattern of Sponsors 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 determines the advertisers as “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 319 million yen, and the operating profit from operating activities increased by 287 million yen for the nine-month ended September 30, 2018.

### (3) LINE Point Ad

The new standard resulted in a change to the timing of revenue recognition, whereby the Group is recognize 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 Ad 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 determines the advertisers as customers for LINE Point Ad 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, is 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 assessed 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 as 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 102 million yen, and the operating profit from operating activities decreased by 118 million yen for the nine-month ended September 30, 2018.

### (4) Advertising services

For advertising services such as official account, 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 publication to comply with the Group’s specification or standards of advertisement publication. In such transaction, 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 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. Especially, 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 specification 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 6,494 million yen for the nine-month ended September 30, 2018.

Moreover, in accordance with IFRS 15, the Group recognizes costs of contract 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 which the revenue of the advertising contract is recognized for. Therefore, compared to the previous method, the sales commission expenses increased by 6,494 million yen for the nine-month period ended September 30, 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.

|                         |                             |
|-------------------------|-----------------------------|
|                         | <i>(In millions of yen)</i> |
|                         | <b>January 1,<br/>2018</b>  |
| Stickers                | (967)                       |
| LINE Sponsored Stickers | (760)                       |
| LINE Point Ad           | 667                         |
| Other                   | (63)                        |
| Total                   | (1,123)                     |

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.

|   |   |                         |                      |  |
|---|---|-------------------------|----------------------|--|
|   |   |                         |                      | <i>(In millions of yen)</i>                |
|   | <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<br>comprehensive income | 7,440   | —                       | (8)                  | 7,432                                      |
| Non-controlling interests                 | 4,902   | —                       | (89)                 | 4,813                                      |

|   |  |                         |                      |   |
|---|--|-------------------------|----------------------|---|
|   |  |                         |                      | <i>(In millions of yen)</i>                   |
|   | <b>September 30, 2018<br/>(under IAS 18 and<br/>other)</b> | <b>Reclassification</b> | <b>Remeasurement</b> | <b>September 30, 2018<br/>(under IFRS 15)</b> |
| Trade and other receivables               | 41,299   | (306)                   | (690)                | 40,303  |
| Contract assets                           | —  | 306                     | —                    | 306   |
| Other current assets                      | 8,701  | —                       | 1,063                | 9,764   |
| Deferred tax assets                       | 15,836   | —                       | 347                  | 16,183  |
| Other financial liabilities, current      | 28,380   | 4,256                   | —                    | 32,636  |
| Contract liabilities                      | —  | 24,338                  | 946                  | 25,284  |
| Advances received                         | 19,310   | (19,310)                | —                    | —   |
| Deferred revenue                          | 9,284  | (9,284)                 | —                    | —   |
| Provision, current                        | 1,637  | —                       | 689                  | 2,326   |
| Accumulated deficit                       | (9,225)  | —                       | (936)                | (10,161)                                      |
| Accumulated other<br>comprehensive income | 4,238  | —                       | (1)                  | 4,237   |
| Non-controlling interests                 | 13,038   | —                       | 22                   | 13,060  |

**For the nine-month period ended September 30**

(In millions of yen)

|  | <b>2018</b><br><b>(under IAS 18 and</b><br><b>other)</b> | <b>Reclassification</b> | <b>Remeasurement</b> | <b>2018</b><br><b>(under IFRS 15)</b> |
|--|--|-------------------------|----------------------|---------------------------------------|
| Revenue and other operating income   |  |                         |                      |                                       |
| Revenues   | 144,152  | —                       | 7,059                | 151,211                               |
| Other operating income   | 11,222   | —                       | —                    | 11,222                                |
| Revenue and other operating income total   | 155,374  | —                       | 7,059                | 162,433                               |
| Operating expenses   |  |                         |                      |                                       |
| Payment processing and licensing expenses  | (22,641)   | —                       | (9)                  | (22,650)                              |
| Sales commission expenses  | (4,555)  | —                       | (6,526)              | (11,081)                              |
| Employee compensation expenses   | (42,106)   | —                       | —                    | (42,106)                              |
| Marketing expenses   | (14,362)   | —                       | —                    | (14,362)                              |
| Infrastructure and communication expenses  | (7,764)  | —                       | —                    | (7,764)                               |
| Outsourcing and other service expenses   | (23,014)   | —                       | —                    | (23,014)                              |
| Depreciation and amortization expenses   | (7,852)  | —                       | —                    | (7,852)                               |
| Other operating expenses   | (26,641)   | —                       | (218)                | (26,859)                              |
| Operating expenses total   | (148,935)  | —                       | (6,753)              | (155,688)                             |
| Profit from operating activities   | 6,439  | —                       | 306                  | 6,745                                 |
| (Loss)/profit before tax from continuing operations  | (532)  | —                       | 306                  | (226)                                 |
| Income tax expenses  | (7,395)  | —                       | (72)                 | (7,467)                               |
| (Loss)/profit for the period from continuing operations  | (7,927)  | —                       | 234                  | (7,693)                               |
| Loss for the period  | (7,924)  | —                       | 234                  | (7,690)                               |
| Attributable to:   |  |                         |                      |                                       |
| The shareholders of the Company  | (6,279)  | —                       | 211                  | (6,068)                               |
| Non-controlling interests  | (1,645)  | —                       | 23                   | (1,622)                               |
| Earnings per share   |  |                         |                      | (In yen)                              |
| Basic (loss)/profit for the period attributable to the shareholders of the Company               | (26.39)  | —                       | 0.89                 | (25.50)                               |
| Diluted (loss)/profit for the period attributable to the shareholders of the Company             | (26.39)  | —                       | 0.89                 | (25.50)                               |
| Earnings per share from continuing operations  |  |                         |                      |                                       |
| Basic (loss)/profit from continuing operations attributable to the shareholders of the Company   | (26.40)  | —                       | 0.89                 | (25.51)                               |
| Diluted (loss)/profit from continuing operations attributable to the shareholders of the Company | (26.40)  | —                       | 0.89                 | (25.51)                               |

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 Interim Condensed Consolidated Financial Statement of Profit or Loss from the three-month period ended March 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 Interim Condensed Consolidated Financial Statement of Profit or Loss for the three-month and the nine-month periods ended September 30, 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 the following accounting policies in accordance with IFRS 9 commencing on January 1, 2018.

### (1) Classification of financial assets

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

#### i. Financial assets as amortized cost

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

#### ii. Financial assets at fair value through other comprehensive income

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

#### iii. Financial assets at fair value through profit or loss

Financial assets measured at fair value through profit or loss are the financial assets that are not classified as financial asset at amortized cost or financial assets at fair value through other comprehensive income.

### (2) Measurement of financial assets

#### Initial measurement

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

#### Subsequent measurement

#### Debt instruments:

##### i. Amortized cost

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

##### ii. Fair value through other comprehensive income (FVOCI)

Subsequent to initial recognition, financial assets are measured at fair value and gains or losses arising from changes in the fair value are recorded in other comprehensive income, except for the recognition of interest revenue, foreign exchange gains or losses and expected credit losses which are recognized in profit or loss. When debt investments are derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

##### iii. Fair value through profit or loss

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

#### Equity instruments:

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

Dividends from equity investments are recognized in profit or loss as “Other operating income” when the Group’s right to receive payments is established.

#### (3) Impairment of financial assets

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

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

The Group has applied IFRS 9 retrospectively and has determined not to restate the comparative information for the period beginning 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 in to appropriate classification under IFRS 9. The impacts of these classifications are as follows.

(In millions of yen)

|  | Balance as of January 1, 2018 under IFRS 9       |   |   |   |
|--|--|---|---|---|
|  | 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 |
| <b>Financial assets</b>                                  |  |   |   |   |
| <b>Trade and other receivables</b>                       |  |   |   |   |
| Loans and receivables                                    | 42,892   | —   | —   | 42,892  |
| Total  | 42,892   | —   | —   | 42,892  |
| <b>Other financial assets, current</b>                   |  |   |   |   |
| Loans and receivables                                    |  |   |   |   |
| Time deposits  | 12,002   | —   | —   | 12,002  |
| Short-term loans   | 206  | —   | —   | 206   |
| Corporate bonds and other debt instruments               | 849  | —   | 852   | —   |
| Available-for-sale financial assets                      | 6  | —   | 6   | —   |
| Office security deposits                                 | 195  | —   | —   | 195   |
| Total  | 13,258   | —   | 858   | 12,403  |
| <b>Other financial assets, non-current</b>               |  |   |   |   |
| Held-to-maturity investments                             | 280  | —   | —   | 280   |
| Loans and receivables                                    |  |   |   |   |
| Corporate bonds and other debt instruments               | 7,986  | 28  | 7,997                                       | —   |
| Guarantee deposits                                       | 726  | —   | —   | 726   |
| Office security deposits                                 | 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                      | 15,388   | 5,262   | 10,126                                      | —   |
| Other  | 133  | —   | 44  | 89  |
| Total  | 32,084   | 7,152   | 18,167                                      | 6,804   |

|  | Impacts by adoption of IFRS 9                      |                                 |               |
|--|--|---------------------------------|---------------|
|  | Fair value<br>measurement<br>at January 1,<br>2018 | Provision at<br>January 1, 2018 | Total impacts |
| <b>Financial assets</b>                                  |  |                                 |               |
| <b>Trade and other receivables</b>                       |  |                                 |               |
| Loans and receivables                                    | —  | —                               | —             |
| Total  | —  | —                               | —             |
| <b>Other financial assets, current</b>                   |  |                                 |               |
| Loans and receivables                                    |  |                                 |               |
| Time deposits  | —  | —                               | —             |
| Short-term loans   | —  | —                               | —             |
| Corporate bonds and other debt instruments               | 6  | (3)                             | 3             |
| Available-for-sale financial assets                      | —  | —                               | —             |
| Office security deposits                                 | —  | —                               | —             |
| Total  | 6  | (3)                             | 3             |
| <b>Other financial assets, non-current</b>               |  |                                 |               |
| Held-to-maturity investments                             | —  | —                               | —             |
| Loans and receivables                                    |  |                                 |               |
| Corporate bonds and other debt instruments               | 52   | (13)                            | 39            |
| Guarantee deposits                                       | —  | —                               | —             |
| Office security deposits                                 | —  | —                               | —             |
| Financial assets at fair value through profit or loss    |  |                                 |               |
| Conversion right and redemption right of preferred stock | —  | —                               | —             |
| Available-for-sale financial assets                      | —  | —                               | —             |
| Other  | —  | —                               | —             |
| Total  | 52   | (13)                            | 39            |

(In millions of yen)

|  | Balance as of January 1, 2018 under IFRS 9       |   |   |   |                                       |
|--|--|---|---|---|---------------------------------------|
|  | 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           | 28,810   | —   | —   | 28,810  | 28,810                                |
| Total  | 28,810   | —   | —   | 28,810  | 28,810                                |
| <b>Other financial liabilities, current</b>                |  |   |   |   |                                       |
| Financial liabilities measured at amortized cost           |  |   |   |   |                                       |
| Deposits received  | 5,730  | —   | —   | 5,730   | 5,730                                 |
| Short-term borrowings                                      | 22,224   | —   | —   | 22,224  | 22,224                                |
| Others   | 49   | —   | —   | 49  | 49                                    |
| Total  | 28,003   | —   | —   | 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  | 23                                    |
| Others   | 93   | —   | —   | 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                      |                                 |               |
|--|--|---------------------------------|---------------|
|  | 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           | —  | —                               | —             |
| 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)

|   |   | Accumulated deficit | Accumulated other comprehensive income - Financial assets at FVOCI |
|---|---|---------------------|--|
| 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 financial assets at FVOCI and recognized previously in profit or loss | 2 | 1,000               | (1,000)  |
| Fair value measurement of financial assets 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 and as the maturities of such investments were predetermined. Also, 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, investments in corporate bonds of 402 million yen, and investments in partnerships of 2 million yen as of January 1, 2018, were reclassified from available-for-sale financial assets to financial assets at FVOCI as the cash flows from these investments did not represent solely payments of principal and interest on the principal amount outstanding and as the Group has determined to measure such investments at FVOCI. Also, related cumulative impairment loss and its tax effects of 1,000 million yen were reclassified from accumulated deficit to accumulated other comprehensive income. The Group estimates a loss allowance based on 12 months expected credit losses on debt instruments which are measured at FVOCI as the Group has judged that the risks for such investments are low.

(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 the Group's business model is achieved by collecting contractual cash flows. 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 financial assets at FVOCI as the cash flows from these assets represent solely payments of principal and interest on the principal amount outstanding and as the Group's business model is achieved by both collecting contractual cash flows and selling of these financial assets for profit. Fair value gains and related tax effects of 42 million yen measured at January 1, 2018, were adjusted to the accumulated other comprehensive income. Also, 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 which 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

A convertible bond of 28 million yen as of January 1, 2018, was 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 and as the maturity was predetermined. There was no effect to accumulated deficit and accumulated other comprehensive income at 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 the Group's business model is achieved by collecting contractual cash flows. The amounts of expected credit losses arising from those financial assets as of January 1, 2018, were deemed immaterial.

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

## Notes for 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 the 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 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 Core business based on the growth of revenue and profitability and of 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 includes display advertising, accounts 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 the services such as livedoor blog, NAVER Matome and advertisement appears 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, 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 by the same method as the preparation of consolidated financial statements, except 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 information after eliminating intercompany transactions for their performance assessment, there is no adjustments between segments.

From the fiscal year of 2018, the Group changed 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 nine-month period ended September 30, 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> | 109,559             | 11,674             | 121,233 | —                                    | 121,233      |
| Segment profit/(loss) <sup>(3)</sup>           | 25,976              | (10,799)           | 15,177  | 9,302                                | 24,479       |
| Depreciation and amortization expenses         | 4,322               | 565                | 4,887   | —                                    | 4,887        |

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

<sup>(2)</sup> Revenue from external customers for the nine-month period ended September 30, 2017 is presented based on IAS 18, while the Group's operating profit for the each segment for the nine-month period ended September 30, 2018 is presented under IFRS 15. standards.

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

**For the nine-month period ended September 30, 2018**

(In millions of yen)

|  | Reportable segments |                    |         | Corporate adjustments <sup>(1)</sup> | Consolidated |
|--|---------------------|--------------------|---------|--------------------------------------|--------------|
|  | Core business       | Strategic business | Total   |                                      |              |
| Revenue from external customers        | 131,920             | 19,291             | 151,211 | —                                    | 151,211      |
| Segment profit/(loss) <sup>(2)</sup>   | 21,280              | (22,894)           | (1,614) | 8,359                                | 6,745        |
| Depreciation and amortization expenses | 6,396               | 1,456              | 7,852   | —                                    | 7,852        |

<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 Interim Condensed Consolidated Statement of Profit or Loss.

The reconciliation of segment profit to profit/(loss) before tax from continuing operations is as follows:

**For the nine-month periods ended September 30, 2017 and September 30, 2018**

(In millions of yen)

|  | 2017    | 2018    |
|--|---------|---------|
| Segment profit   | 24,479  | 6,745   |
| Financial income   | 136     | 298     |
| Financial costs  | (18)    | (326)   |
| Share of loss of associates and joint ventures                     | (4,308) | (7,311) |
| (Loss)/gain on foreign currency transactions, net                  | (295)   | 72      |
| Other non-operating income   | 1,268   | 317     |
| Other non-operating expenses                                       | (64)    | (21)    |
| Profit/(loss) for the period before tax from continuing operations | 21,198  | (226)   |

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 nine-month periods ended September 30, 2017 and 2018 are as follows. Revenues for the nine-month period ended September 30, 2017 are presented using IAS18 as the Group uses the modified retrospective method in the adoption of IFRS15.

Revenues recognized at one time mainly consist of revenues from LINE Friends.

#### For the nine-month periods ended September 30,

|                                    | <i>(In millions of yen)</i> |             |
|------------------------------------|-----------------------------|-------------|
|                                    | <b>2017</b>                 | <b>2018</b> |
| Core business                      |                             |             |
| Advertising                        |                             |             |
| Display advertising <sup>(1)</sup> | 18,248                      | 27,143      |
| Account advertising <sup>(2)</sup> | 28,047                      | 41,379      |
| Other advertising <sup>(3)</sup>   | 7,841                       | 10,764      |
| Sub-total                          | 54,136                      | 79,286      |
| Communication, content, and others |                             |             |
| Communication <sup>(4)</sup>       | 23,141                      | 21,633      |
| Content <sup>(5)</sup>             | 30,400                      | 28,504      |
| Others                             | 1,882                       | 2,497       |
| Subtotal                           | 55,423                      | 52,634      |
| Core business total                | 109,559                     | 131,920     |
| Strategic business                 |                             |             |
| Friends <sup>(6)</sup>             | 8,178                       | 12,637      |
| Others <sup>(7)</sup>              | 3,496                       | 6,654       |
| Strategic business total           | 11,674                      | 19,291      |
| Total                              | 121,233                     | 151,211     |

(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.

**Notes for going concern assumption**

Not applicable.