

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**Form 20-F**

(Mark One)

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934  
OR
- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2018  
OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
OR
- SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
Date of event requiring this shell company report \_\_\_\_\_  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 001-37821

**LINE Kabushiki Kaisha**  
(Exact name of Registrant as specified in its charter)

**LINE Corporation**  
(Translation of Registrant's name into English)

**Japan**  
(Jurisdiction of incorporation or organization)

**JR Shinjuku Miraina Tower, 23rd Floor**  
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(Name, telephone, e-mail and/or facsimile number and address of company contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of Each Class	Name of Each Exchange on Which Registered
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American Depositary Shares, each representing one share of common stock	New York Stock Exchange, Inc.
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Common Stock *	New York Stock Exchange, Inc. *
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Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

As of December 31, 2018, there were 240,524,642 shares of common stock outstanding

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

†The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing.

U.S. GAAP  IFRS  Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

\* Not for trading, but only in connection with the registration of the American Depositary Shares.

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## CONVENTIONS USED IN THIS ANNUAL REPORT

Except where the context otherwise requires or unless otherwise specified, and for purposes of this annual report on Form 20-F only:

- “daily active users” or “DAUs” refers to the number of user accounts that (i) accessed the LINE messaging application or any LINE Game through mobile devices; (ii) sent messages through the LINE messaging application from personal computers; or (iii) sent messages through any other LINE application from mobile devices, in each case at least once during a given day;
- “Japanese yen,” “yen” or “¥” refers to the legal currency of Japan;
- “Korea” refers to the Republic of Korea;
- “Korean won,” “Won” or “₩” refers to the legal currency of Korea;
- “LINE,” “we,” “us,” “our company,” “the Company” or “our” refers to LINE Corporation and its consolidated subsidiaries taken as a whole, as well as the messaging application and other products of LINE Corporation;
- “messages” refers to text messages, voice messages, Stickers and photo, video, voice and text files sent and received, as well as free voice and video calls made and received, in each case using the LINE messaging application from either mobile devices or personal computers or using any LINE Game or any other LINE application from mobile devices;
- “monthly active users” or “MAUs” in a given month refers to the number of user accounts that (i) accessed the LINE messaging application or any LINE Game through mobile devices; (ii) sent messages through the LINE messaging application from personal computers; or (iii) sent messages through any other LINE application from mobile devices, in each case at least once during that month;
- “monthly paying users” or “MPUs” in a given month refers to the number of user accounts that made (i) a payment for Stickers, Themes or LINE Out on the LINE messaging application through mobile devices or personal computers or (ii) a payment relating to any LINE Game through mobile devices, in each case at least once during that month;
- “paid impression” refers to the display of an advertisement to a user while accessing our products and services for which we generate revenues;
- “platform partners” refers to application developers and other providers of content offered on the LINE platform;
- “stickers” refers to larger, cartoon-like emoticons that depict emotions and actions of characters, which are exchanged as part of chat messages on mobile messaging applications; and
- “U.S. dollar,” “US\$” or “\$” refers to the legal currency of the United States.

Any discrepancies in any table between the totals and the sums of the amounts listed are due to rounding.

## FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements with respect to our current plans, estimates, strategies and beliefs. Forward-looking statements include, but are not limited to, those statements using words such as “anticipate,” “believe,” “continues,” “expect,” “estimate,” “intend,” “project,” “aim,” “plan,” “likely to,” “target,” “contemplate,” “predict,” “potential” 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 us, speak only as of the date hereof and are based on our current plans and expectations and are subject to a number of known and unknown uncertainties and risks, many of which are beyond our 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 this annual report. You are cautioned not to unduly rely on such forward-looking statements when evaluating the information presented and we do not intend to update any of these forward-looking statements. Risks and uncertainties that might affect us include, but are not limited to:

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

You are urged to read the sections “Item 3.D. Risk Factors,” “Item 4. Information on the Company” and “Item 5. Operating and Financial Review and Prospects” of this annual report for a more complete discussion of the factors that could affect our performance and the industry in which we operate.

## LIMITATIONS OF USER METRICS

We review a number of metrics, including MAUs, DAUs and MPUs, to evaluate our business, measure our performance, identify trends affecting our business, formulate business plans and make strategic decisions. Our MAUs, DAUs and MPUs are calculated using our internal data. While these numbers are based on what we believe to be reasonable estimates of our user base for the applicable period of measurement, there are inherent challenges in measuring usage of our products and services across large online and mobile populations around the world. For example, each LINE account is linked to a mobile phone number, and there may be multiple LINE accounts held by the same person if the person carries multiple smartphones and has chosen to download the LINE messaging application on each smartphone. In addition, our data regarding user geographic location for purposes of reporting the geographic location of our MAUs, DAUs, and MPUs is based on the mobile phone number associated with the account when a user initially registered the account on LINE. The phone number may not always accurately reflect a user's actual location at the time of user engagement on our platform. See "Item 3.D. Risk Factors — Certain of our user metrics are subject to inherent uncertainties in measurement, and real or perceived inaccuracies in such metrics may harm our reputation and negatively affect our business."

We regularly review and may adjust our processes for calculating our internal metrics to improve their accuracy. Our measures of user growth and user engagement may differ from estimates published by third parties or from similarly-titled metrics of our competitors due to differences in methodology.

## PART I

### **Item 1. *Identity of Directors, Senior Managers and Advisers***

Not applicable

### **Item 2. *Offer Statistics and Expected Timetable***

Not applicable

### **Item 3. *Key Information***

#### **Item 3.A. *Selected Financial Data***

The consolidated statement of financial position data as of December 31, 2017 and 2018 and the consolidated statement of profit or loss data for the years ended December 31, 2016, 2017 and 2018 have been derived from our audited consolidated financial statements and related notes included in this annual report. The consolidated statement of financial position data as of December 31, 2014, 2015 and 2016 and the consolidated statement of profit or loss data for the years ended December 31, 2014 and 2015 have been derived from our consolidated financial statements and related notes not included in this annual report. These consolidated financial statements and the related notes have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (the “IASB”).

The information set forth below is not necessarily indicative of the results of future operations.

## Consolidated Statement of Profit or Loss Data

	For the year ended December 31,				
	2014	2015	2016	2017	2018
	(in millions of yen, except share and per share data)				
Revenues and other operating income:					
Revenues <sup>(1)</sup> . . . . .	¥ 86,366	¥ 120,406	¥ 140,704	¥ 167,147	¥ 207,182
Other operating income . . . . .	296	474	5,892	12,011	28,099
Total revenues and other operating income . . . . .	86,662	120,880	146,596	179,158	235,281
Operating expenses:					
Payment processing and licensing expenses . . . . .	(20,598)	(28,742)	(29,781)	(29,589)	(30,823)
Sales commission expenses <sup>(2)</sup> . . . . .	(179)	(288)	(615)	(899)	(15,960)
Employee compensation expenses . . . . .	(18,289)	(35,572)	(39,445)	(42,469)	(57,493)
Marketing expenses . . . . .	(18,069)	(16,596)	(11,833)	(15,477)	(20,311)
Infrastructure and communication expenses . . . . .	(4,492)	(7,712)	(7,770)	(9,087)	(10,483)
Outsourcing and other service expenses <sup>(2)</sup> . . . . .	(7,695)	(11,846)	(13,779)	(24,007)	(31,825)
Depreciation and amortization expenses . . . . .	(2,370)	(3,733)	(5,100)	(7,149)	(11,135)
Other operating expenses . . . . .	(8,555)	(14,432)	(18,376)	(25,403)	(41,141)
Total operating expenses . . . . .	(80,247)	(118,920)	(126,699)	(154,080)	(219,171)
Profit from operating activities . . . . .	6,415	1,960	19,897	25,078	16,110
Finance income . . . . .	86	71	87	257	413
Finance costs . . . . .	(137)	(106)	(65)	(26)	(519)
Share of loss of associates and joint ventures . . . . .	(167)	(205)	(833)	(6,321)	(11,148)
Gain (loss) on foreign currency transactions, net . . . . .	66	(520)	(43)	(818)	(902)
Other non-operating income . . . . .	—	157	9	1,963	869
Other non-operating expenses . . . . .	—	(1,887)	(1,062)	(1,988)	(1,469)
Profit (loss) before tax from continuing operations . . . . .	6,263	(530)	17,990	18,145	3,354
Income tax benefits (expenses) . . . . .	(7,151)	146	(8,904)	(9,922)	(9,522)
Profit (loss) for the period from continuing operations . . . . .	(888)	(384)	9,086	8,223	(6,168)
Profit (loss) from discontinued operations, net of tax . . . . .	2,892	(7,588)	(1,982)	(13)	376
Profit (loss) for the period . . . . .	2,004	(7,972)	7,104	8,210	(5,792)
Attributable to:					
The shareholders of the Company . . . . .	4,207	(7,582)	6,763	8,078	(3,718)
Non-controlling interests . . . . .	(2,203)	(390)	341	132	(2,074)



For the year ended December 31,										
	2014	2015	2016	2017	2018					
(in millions of yen, except share and per share data)										
Earnings per share:										
Basic profit (loss) for the period attributable to the shareholders of the Company . . . . .	¥	24.05	¥	(43.33)	¥	34.84	¥	36.56	¥	(15.62)
Diluted profit (loss) for the period attributable to the shareholders of the Company . . . . .		22.14		(39.12)		31.48		34.01		(15.62)
Earnings per share from continuing operations										
Basic profit (loss) from continuing operations attributable to the shareholders of the Company . . . . .		7.52		0.04		45.05		36.62		(17.20)
Diluted profit (loss) from continuing operations attributable to the shareholders of the Company . . . . .		6.92		0.03		40.70		34.06		(17.20)
Earnings per share from discontinued operations										
Basic profit from discontinued operations attributable to the shareholders of the Company . . . . .		16.53		(43.37)		(10.21)		(0.06)		1.58
Diluted profit from discontinued operations attributable to the shareholders of the Company . . . . .		15.22		(39.15)		(9.22)		(0.05)		1.58
Basic weighted average shares										
outstanding . . . . .		174,992,000		174,992,000		194,083,995		220,945,548		238,074,806
Diluted weighted average shares										
outstanding . . . . .		190,024,846		193,797,566		214,874,008		237,552,706		238,074,806

- (1) For a discussion of the impact of our adoption of IFRS 15 *Revenue from Contracts with Customers* (“IFRS 15”) on revenue recognition, see “Item 5.B. Liquidity and Capital Resources — Critical Accounting Judgments, Estimates and Assumptions — Revenue Recognition” and Note 3(30) of the notes to our annual consolidated financial statements.
- (2) Due to our adoption of IFRS 15 starting on January 1, 2018, “sales commission expenses,” which were part of “authentication and other service expenses” prior to January 1, 2018, are now presented separately as a new line item, with the remainder of “authentication and other service expenses” re-categorized as “outsourcing and other service expenses,” starting with the year ended December 31, 2018. Such change has been applied to the figures for prior years. For more information on the impact of our adoption of IFRS 15, see “Item 5.A. Operating Results — Recently Adopted Accounting Standards — The Impact of IFRS 15” and Note 3(30) of the notes to our annual consolidated financial statements.

## Consolidated Statement of Financial Position Data

	As of December 31,				
	2014	2015	2016	2017	2018
	(in millions of yen)				
Cash and cash equivalents	¥20,254	¥ 33,652	¥134,698	¥123,606	¥256,978
Trade and other receivables	24,223	27,248	28,167	42,892	37,644
Property and equipment	9,656	10,501	9,029	15,125	24,726
Total assets	85,664	122,159	256,089	303,439	486,587
Corporate bonds	1,005 <sup>(1)</sup>	510 <sup>(1)</sup>	—	—	142,132 <sup>(2)</sup>
Total liabilities	73,153	104,626	95,066	113,462	278,073
Share capital	12,596	12,596	77,856	92,369	96,064
Total shareholder's equity	12,511	17,533	161,023	189,977	208,514
Equity attributable to the shareholders of the					
Company	12,496	17,743	160,834	185,075	198,916
Equity attributable to non-controlling interests	15	(210)	189	4,902	9,598

(1) Consists of the outstanding amounts of the unsecured corporate bonds we issued in August 2013 with an aggregate principal amount of ¥1,500 million, all of which were repaid during the year ended December 31, 2016.

(2) Consists of the outstanding amount of the Convertible Bonds (as defined below) we issued in September 2018. For further details, see "Item 5.B. Liquidity and Capital Resources — Liquidity and Capital Resources — Cash Flows — Net Cash Provided by Financing Activities" and Note 15 of the notes to our annual consolidated financial statements.

### Item 3.B. Capitalization and Indebtedness

Not applicable

### Item 3.C. Reasons for the Offer and Use of Proceeds

Not applicable

### Item 3.D. Risk Factors

***If we fail to retain existing users or add new users, or if our users decrease their level of engagement with LINE, our revenue, financial results and business may be significantly harmed.***

The size of our user base and our users' level of engagement are critical to our success, and our financial performance has been and will continue to be significantly determined by our success in adding, retaining and engaging active users. From our inception, we experienced our largest user growth in Japan, Thailand, Taiwan and Indonesia. For example, our aggregate MAUs in Japan, Thailand and Taiwan were 127 million in December 2016, 135 million in December 2017 and 144 million in December 2018. Despite such growth, the growth rate of our users in such markets has declined over time as we achieved higher penetration rates in those markets. In Indonesia, we have experienced a decrease in the number of our MAUs starting in the second quarter of 2017 primarily due to intensified competition in that market, and our MAUs in Indonesia were 40 million in December 2016, 32 million in December 2017 and 20 million in December 2018. In part due to refocusing of our marketing efforts on these key countries in line with our increased emphasis on monetization in markets where we have achieved leading market positions, we have experienced a significant decrease not only in total MAUs but also in the level of user engagement outside of the four countries, and there may be further decreases in the future.

Our business performance will also become increasingly dependent on our ability to increase levels of user engagement in current and new markets. If people do not perceive our products and services to be useful, reliable or trustworthy, we may not be able to attract or retain users or otherwise maintain or increase the frequency, duration or level of their engagement. A number of other providers of mobile messaging applications and online companies that achieved early popularity have seen the sizes of their user bases or levels of engagement subsequently decline, in some cases precipitously.

Any number of factors could negatively affect user retention, growth or engagement, including if:

- we are unable to continue to offer products and services that users find engaging, that work with a variety of mobile operating systems and networks, and that achieve a high level of market acceptance, particularly in markets that we are targeting for expansion;
- users increasingly engage with competing products or services, particularly communication tools and mobile games;
- we are unable to provide a compelling and intuitive user experience and environment, particularly relating to the quality, volume, design and layout of the content and advertisements delivered on the LINE platform;
- we fail to provide adequate customer service to users or advertisers or maintain relationships with key platform partners such as mobile game developers;
- there are increased user concerns related to privacy and information sharing, safety or security;
- there are adverse changes in our products or services that are mandated by legislation, regulatory authorities or legal proceedings;
- technical or other problems prevent us from delivering our products and services in a rapid and reliable manner or otherwise negatively affect user experience; or
- we fail to maintain our brand image or our reputation is damaged.

There is no guarantee that we will not experience erosion of our active user base or decline in engagement levels. A decrease in user retention, growth or engagement could reduce our direct sales to users and render LINE less attractive to our platform partners and advertisers, thereby reducing our revenues from them, which may have a material and adverse impact on our business, financial condition and results of operations.

***We may not be successful in our efforts to monetize our products and services.***

Our ability to monetize our user base and user engagement is critical to our business and financial performance. We plan to continue to invest in product development and explore additional monetization opportunities, including those related to fintech, artificial intelligence (“AI”) and blockchain, in our largest markets such as Japan, Taiwan, Thailand and Indonesia and in other markets, but there is no guarantee that these efforts will be successful. For example, we are currently pursuing a variety of new business initiatives related to fintech, including mobile payment and online financial services, and whether we will be able to successfully monetize these new services remains uncertain. In addition, users and advertisers in certain markets are not as familiar with new forms of digital advertising, such as our Official Accounts and Sponsored Stickers, as well as display ads posted on Timeline and LINE NEWS. In newer markets, we are investing to convince users and advertisers of the benefits of our products and services. However, we expect that monetizing efforts in many of these new markets may require a significant investment of time and resources, which may not result in sufficient, or any, returns to recover such investment.

As part of our business strategy, we are seeking ways to increase our revenue by selectively introducing commissions and other charges with respect to our existing products and services that are currently offered for free, as well as adding new advertising services and developing other new revenue generating products and services. However, there is no guarantee that our efforts to further monetize our products and services will be successful in generating significant new revenues or profits. Furthermore, our monetization efforts could have a negative effect on user engagement and user base growth if such efforts discourage users from using our products

and services. In addition, our competitors may introduce new revenue models in the future, and if such new revenue models are perceived as offering a better value proposition to users than the models that we currently use or plan to implement, our customers may switch to our competitors' products and services. If our monetization efforts are not as successful as we anticipate, we may not be able to maintain or grow our revenues, and our business, financial condition and results of operations could be adversely affected.

***Our business operates in an industry that is highly competitive, and competition presents an ongoing threat to the success of our business.***

We compete against various companies to attract and engage users, some of which have greater financial resources and substantially larger user bases. We face direct competition from mobile messaging service providers such as Facebook's WhatsApp and Messenger and Tencent's WeChat, as well as mobile messaging services for specific operating platforms such as Apple's iMessage. We also face significant competition in almost every aspect of our business, including from companies such as Facebook, Google, Twitter and Yahoo Japan. We face competition from mobile telecommunications companies, game companies, music and video streaming companies, mobile payment companies, fintech companies, AI companies, e-commerce companies and other internet-related companies that offer products and services that may compete with specific features of the LINE messaging service or other applications that we offer. We also compete with traditional and online media businesses for a share of advertisers' budgets and in the development of tools and systems for managing and optimizing advertising campaigns. As we introduce new products and our existing products evolve, or as other companies introduce new products and services, we may become subject to additional competition.

Scale benefits and other advantages may allow our competitors to respond more effectively than us to a rapidly evolving environment in the mobile internet industry, including industry consolidation that may result in increased competition. Our competitors may develop products, features or services that are similar to ours or that achieve greater market acceptance, may undertake more far-reaching and successful product development efforts or marketing campaigns, or may adopt more aggressive pricing policies. In addition, platform partners may use information shared by our users through the LINE platform in order to develop products or features that compete with us. Certain competitors, including Facebook and Google, could use strong positions in one or more markets to gain competitive advantages against us in areas where we operate including: by integrating competing messaging applications or features into products they control such as social networking platforms, search engines, web browsers or mobile device operating systems; by making strategic acquisitions; or by making access to LINE more difficult. As a result, our competitors may acquire and engage users at the expense of our user base or our users' engagement with our products and services, which may negatively affect our business, financial condition and results of operations.

***We may not be successful if we are not able to develop and provide new products and services in a timely and cost-effective manner that address rapidly evolving user preferences, and any new products and services we develop and provide, including those related to fintech, AI and blockchain, may expose us to new risks.***

We compete in a highly competitive industry characterized by rapidly changing products and services, evolving industry standards and continual improvements in performance characteristics and product features. Rapidly evolving user preferences may lead to certain products and services becoming less competitive, or even obsolete. Accordingly, our success depends greatly on our ability to anticipate and respond to emerging user preferences and demands by ensuring continuing and timely development and provision of new, as well as enhancements to existing, products and services. In order to respond to such preferences and demands, we may develop and introduce new products and services, including in areas where we have little or no prior development or operating experience. For example, in March 2017, we launched our next-generation AI platform called "Cloud Virtual Assistant (or "Clova")," which enables voice interfaces to process a wide range of real-world inputs and deliver our products and services in a coherent and optimized manner. We have

subsequently launched a series of LINE Clova-integrated smart speakers starting in October 2017 and released the Clova Extensions Kit in July 2018 to allow third-party developers to scale LINE Clova functionalities. We expect to continue to expend significant time and resources in marketing our LINE Clova-integrated smart devices in 2019 as well as develop and launch new products and services to be offered on the LINE Clova ecosystem that are designed to further enrich our users' daily lives.

In addition, some of our strategic initiatives that we expect will enhance our attractiveness to users and provide us with new sources of revenue may not directly or immediately generate revenue and may even hurt our profitability at least in the short term. Our new products and services may bring us into contact, directly or indirectly, with entities that are not within our traditional customer base or result in competing with entities that are our existing business partners. We may also enter into new business areas that require a number of licensing or registration requirements, as well as subject us to additional regulations applicable to the relevant industry in a number of jurisdictions. For example, in recent years, we have focused our strategy on exploring a variety of new business opportunities related to fintech. Some of our recent fintech-related activities include, among others, expansion of services available to our users through LINE Pay, pursuit of alliances with reputable players in the financial services industry to offer new services related to insurance, online securities brokerage, consumer loans and internet banking on the LINE platform, as well as the launch of BITBOX, our virtual currency exchange in Singapore. We are also pursuing business opportunities related to blockchain, such as the launch of LINK, the base digital token for our blockchain ecosystem. As most of these ventures are still in the early stages of operation, there can be no assurance that any of them will gain market acceptance and be used widely by our existing and potential users. We expect to continue to expend significant time and resources in developing, launching and marketing these ventures, and there can be no assurance that such initiatives will be successful.

Any of these activities could expose us to new risks, including additional regulatory scrutiny and credit-related and other operational risks, such as inventory risk for our unsold products. We have previously developed and introduced new products and services or entered into new business areas that did not lead to the results we anticipated, which may again occur in the future. There can be no assurance that we will succeed in developing products and services that eventually become widely accepted, that we will be able to timely release products and services that are commercially viable, or that we will establish ourselves as a successful player in a new business area. Our inability to do so would have an adverse impact on our business, financial condition and results of operations.

***Our acquisitions and investments may not be successful in achieving their intended goals and could harm our business, financial condition and results of operations.***

Our success will depend, in part, on our ability to expand our products and services, and grow our business in response to changing technologies, user and advertiser demands, and competitive pressures. In some circumstances, we may decide to do so through the acquisition of complementary businesses and technologies or the investment in attractive business opportunities through partnerships with established players in the target industry, rather than through internal development. The identification of suitable acquisition candidates or business partners can be difficult, time-consuming and costly, and we may not be able to successfully consummate the identified acquisition or investment transactions.

We have limited experience acquiring other businesses, and our ability to acquire and integrate other companies and assets, particularly larger or more complex companies, products, or technologies, in a successful manner remains subject to uncertainty. In addition, any completed acquisitions may not achieve their intended goals and could be viewed negatively by users, platform partners, advertisers or investors. For example, we acquired assets of MixRadio, a mobile music streaming service, from Microsoft in March 2015, but after careful assessment of the overall performance of MixRadio, the financial challenges posed by the music streaming market, changing market conditions, an increase in the cost of maintaining the business and a shift in our overall priorities, our board of directors approved the liquidation of our MixRadio business that became effective in March 2016. For more information, see Note 23 of the notes to our annual consolidated financial statements. We

also make investments by creating joint ventures with third parties, which may subject us to risks that are outside of our control, including changes in our partners' own businesses and strategies, fraudulent or failed transactions, and the impact on our relationships with existing users, platform partners, employees or third parties.

The risks we face in connection with acquisitions and investments also include:

- diversion of management time and focus from operating our business to addressing acquisition and integration challenges;
- challenges associated with the integration of product development and marketing and sales functions of the acquired company or business;
- challenges associated with the retention of key employees from the acquired company or business;
- cultural and operational challenges associated with integrating employees from the acquired company or business into our organization;
- challenges associated with the integration of accounting, management information, human resources and other administrative systems of the acquired company or business;
- the need to implement or improve controls, procedures and policies at a business that prior to the acquisition or investment may have lacked effective controls, procedures and policies;
- liability for activities of the acquired company or business before the acquisition or investment, respectively, including intellectual property infringement claims;
- unfavorable or restrictive contractual terms that govern our relationship with the acquired company or business;
- unanticipated write-offs or charges or impairment of goodwill;
- recognition of our share of loss of associates and joint ventures that are accounted for under the equity method; and
- litigation or other claims in connection with the acquired company or business, including claims from terminated employees, customers, former shareholders or other third parties.

Our failure to address these risks or other problems encountered in connection with our past or future acquisitions or investments could cause us to fail to realize the anticipated benefits of these acquisitions or investments, cause us to incur unanticipated liabilities, or could otherwise harm our business generally. Future acquisitions or investments could also result in dilutive issuances of our equity securities or the incurrence of debt, contingent liabilities, amortization expenses or incremental operating expenses.

***Japan is our largest market in terms of revenue, and our current business and future growth could be materially and adversely affected if we experience a decline in users or user engagement in Japan.***

We are incorporated in Japan, and Japan is our largest market in terms of revenue. We also have the broadest product and service offerings in Japan, and we generated 71.7%, 72.6% and 71.6% of our revenues in Japan in 2016, 2017 and 2018, respectively. We expect to continue to derive a substantial portion of our revenues from Japan in the near future. In general, a higher proportion of LINE users in Japan are paying users than LINE users in other countries, and our continued growth will depend, at least in part, on maintaining or increasing revenues from users in Japan. In recent quarters, our active user growth rate in Japan has slowed, and our

business performance in Japan will increasingly depend on our ability to increase the level of user engagement and our ability to further monetize users' engagement with LINE. Our current business and future growth could be materially and adversely affected if we experience a decline in users or user engagement in Japan.

Due to the importance of the Japanese market to our business, we are also subject to macroeconomic risks specific to Japan. See “— A downturn in macroeconomic conditions may result in reduced demand for our products and services.”

***A substantial portion of our revenues is derived from our advertising products. The loss of our advertisers, reduction in spending by our advertisers or failure to achieve market acceptance of new advertising products and services could negatively affect our business.***

A substantial portion of our revenues is derived from our advertising products and services. As is common in the industry, our advertisers typically do not have long-term advertising commitments with us. Many of our advertisers spend only a relatively small portion of their overall advertising budget with us. In addition, some of our advertisers may view our products, such as Official Accounts, as experimental or unproven. Advertisers may not continue to do business with us, or they may reduce the prices or spending they are willing to pay to advertise with us, if we do not deliver advertisements and other commercial content in an effective manner, or if they do not believe that their investment in our advertising products and services will generate a competitive return relative to alternative methods of advertising.

In addition, our ability to increase our revenue will depend in large part on our ability to create successful new advertising products as well as improving features of existing products and services on our platform that further enhance the media value for our advertising business. For example, we have recently completed a series of enhancements to various functionalities of our display ads platform, which we believe would lead to improved operational capabilities, upgraded targeting technology and enhanced user experience. Although we expend a significant amount of time and resources in these efforts, such initiatives may not always lead to the anticipated benefits. We may also introduce new and unproven advertising products and services, using advertising technology with which we have little or no prior development or operating experience. If new advertising products and services fail to engage advertisers, we may fail to generate sufficient revenue to justify investment and our business may be adversely affected.

Our advertising revenue could also be adversely affected by a number of other factors, including:

- decreases in the number of active users and their engagement;
- our inability to improve our analytics and measurement solutions that demonstrate the value of advertising on LINE or our portals;
- our inability to create new products or services that sustain or increase the value of advertising on LINE or our portals;
- product changes we may make that reduce the frequency or relative prominence of advertisements and other commercial content delivered through the LINE platform or our portals;
- our inability to increase the relevance of targeted ads shown to users;
- our inability to increase advertisers' demand and inventory;
- loss of advertising market share to our competitors;
- adverse legal developments relating to advertising;

- failure to maintain partnerships with third-party entities that license key advertising technology necessary to deliver certain advertisements on the LINE platform;
- adverse changes in the way online advertising on personal computers or mobile devices is priced;
- the degree to which users opt out of certain types of targeted ads;
- the impact of new technologies that could block or obscure the display of some types of advertisements and other commercial content; and
- the impact of macroeconomic conditions and conditions in the advertising industry in general.

The occurrence of any of these or other factors could result in a reduction in demand for advertisements, which may reduce the prices we receive for our advertisements or cause advertisers to stop advertising with us altogether, either of which would negatively affect our business, financial condition and results of operations.

***We depend on a small number of mobile games offered on the LINE platform for a majority of our mobile game revenues. We must continue to offer games that attract and retain a significant number of users, or otherwise our business, financial condition and results of operations could be negatively affected.***

We offer various games on our LINE platform through Apple App Store and Google Play, and they accounted for a substantial portion of our revenues in 2016, 2017 and 2018. As of December 31, 2018, we offered 50 games, of which 44 games were developed by third-party game developers and six games were developed by us. Accordingly, we believe that maintaining successful partnerships with, and the ability to attract and select from, third-party game developers are important for our success. Existing and prospective mobile game developers may not be successful in developing games that create and maintain user engagement. Additionally, although our general policy is to enter into new contractual arrangements with third-party game developers to become the exclusive distributor of their games in a particular market, to the extent such arrangements are not yet in place, developers may choose to provide their content on other platforms, including mobile platforms controlled by our competitors, rather than offering them on the LINE platform. Our failure to maintain good relationships with third-party game developers or attract new developers could adversely affect our business, financial condition and results of operations.

Historically, we have depended on a small number of games for a majority of our mobile game revenues, and we expect that this dependence will continue for the foreseeable future. Our growth in this area depends on our ability to consistently launch new games that achieve significant popularity, as well as to upgrade popular games with new features that our users find attractive. It is difficult to anticipate user preferences or demand, particularly as we procure new games in new genres or new markets, and constant enhancement requires the investment of significant resources. We plan to continue to focus on game development not only through internal development but also through investments in associates by entering into strategic partnerships with experienced players in the game industry. Our success in part will depend on our ability to find, and collaborate effectively with, such partners. See “— Our acquisitions and investments may not be successful in achieving their intended goals and could harm our business, financial condition and results of operations.”

In recent years, our revenues from LINE Games have declined, with total MAUs steadily decreasing from 39 million in December 2014 to 18 million in December 2018. As a relatively small portion of our players account for a large portion of our revenues from LINE Games, we must constantly seek new ways to convert non-paying players into paying players and attract and retain paying players. However, the success and performance of new and existing games is volatile and difficult to predict. If we fail to offer attractive in-game items, make unpopular changes to existing in-game items or offer games that do not encourage purchases of in-game items or upgrades of game versions, or if we fail to successfully launch new games that attract and retain a significant number of users or if upgrades and launches of new titles are delayed, revenues from our games will decrease and our business, financial condition and results of operations could be materially harmed.



***We generate a substantial portion of our revenues from communication services from our sale of Stickers, the market for which continues to evolve, and if the popularity of Stickers declines, our business and future growth could be negatively affected.***

We generate a substantial portion of our revenues from communication services from the sale of Stickers featuring characters developed by us as well as licensed from third parties, including our users who design Stickers to be sold on LINE Creators Market. The market for the sale of Stickers continues to evolve, and the growth of such market and the level of demand for, and market acceptance of, our Stickers are subject to a high degree of uncertainty. In particular, a substantial majority of revenues from the sale of our Stickers has been derived from sales in Japan, and there can be no assurance that such products will achieve a similar level of market acceptance elsewhere. Over time, users in Japan may also lose interest in purchasing new Stickers. In recent years, our revenues from the sale of Stickers have remained relatively stagnant. Revenue growth from our sale of Stickers depends to a large extent on our ability to consistently launch new and different types of Stickers that achieve significant popularity and effectively respond to changes in consumer demographics and public tastes and preferences. We also depend on third-party character developers and licensors for content that accounts for a substantial portion of our Sticker sales, and we expect that this dependence will continue for the foreseeable future. A decline in the popularity of our Stickers, or the failure to further grow our Stickers business, would negatively affect our business, financial condition and results of operations.

***We plan to continue expanding our global operations into markets in which we have limited operating experience and, as a result, may become subject to increased business and economic risks, which could adversely affect our business, financial condition and results of operations.***

We believe LINE is the leading mobile messaging application in Japan, Thailand and Taiwan in terms of number of users, and we have obtained substantial numbers of users in other parts of the world, including Indonesia, the United States, Korea, Vietnam, Saudi Arabia and Malaysia. We expect to continue to expand our offerings of products and services in our key markets. However, expansion of our operations abroad may be difficult due to the presence of established competitors in such markets. In addition, managing our business and expanding our operations globally require considerable management attention and resources and are subject to the particular challenges of supporting a rapidly growing business in an environment of multiple languages, cultures, customs, legal and regulatory systems and commercial markets. Global expansion has required and will continue to require us to invest significant funds and other resources, and there can be no assurance that we will successfully achieve our growth objectives.

Operating globally subjects us to new risks and may increase risks that we currently face, including risks associated with:

- providing an engaging user experience while operating in different languages and cultures, and localizing our products, services, content and features to ensure that they are culturally attuned to the markets where they are offered;
- increased competition from mobile applications and internet services that have strong positions in particular markets and may continue to expand their geographic footprint;
- different and potentially lower levels of user growth, user engagement and demand for online advertising in new and emerging geographies, resulting in greater difficulty in monetizing our products and services;
- recruiting and retaining talented and capable employees in foreign countries and maintaining our corporate culture across all of our offices;
- different levels of telecommunications infrastructure in developing countries that may create challenges in offering our products and services;

- integrating local payment processing systems;
- compliance with applicable foreign laws and regulations, including laws and regulations with respect to economic sanctions and export controls, anti-corruption, anti-bribery and anti-kickback, privacy and consumer protection that may conflict with local customs and practices in some jurisdictions in which we operate and sell our products, and the risk of penalties if our practices are deemed not to be in compliance;
- political, social and economic instability in some countries;
- double taxation of our global earnings and potentially adverse tax consequences due to changes in the tax laws of Japan or other jurisdictions in which we operate; and
- higher costs of conducting business globally, including increased accounting, travel, infrastructure and legal compliance costs.

If we are unable to manage the complexity of our global operations successfully, our business, financial condition and results of operations could be adversely affected.

***If we are not able to maintain and enhance our LINE brand, or if events occur that damage our reputation and brand, our relationships with our users, platform partners and advertisers may be harmed, which may negatively affect our business, financial condition and results of operations.***

Since its introduction in June 2011, LINE has rapidly grown into a global platform for mobile messaging services and content distribution, and we believe that the LINE brand has significantly contributed to the success of our business. We also believe that maintaining and enhancing our brand is critical to expanding our user base, platform partners and advertisers. Many of our new users are referred by existing users, and therefore we strive to ensure that our users are satisfied with our products and services and otherwise remain favorably inclined toward LINE. Maintaining and enhancing our brand will depend largely on our ability to continue to provide simple, user-friendly, reliable and innovative products and services, which we may not do successfully. We may introduce new products or terms of service that users do not like, which may negatively affect our brand. It may also negatively affect our brand if users do not have a positive experience using our platform partners' applications offered on LINE as well as websites linked with LINE. We have in the past experienced, and we may continue to experience, media, legislative or regulatory scrutiny of our decisions regarding user privacy or other issues, including our measures to protect minors, which may adversely affect our reputation and brand. We may also fail to provide adequate customer service, which could erode confidence in our brand. Our brand may also be negatively affected by attacks from our competitors, by negative publicity about the actions of users that are deemed to be hostile, illegal or inappropriate to other users, by third-party content providers acting inappropriately with respect to the LINE platform, by users acting under false identities, by any regulatory developments designed to address such risks, or due to legal proceedings. Maintaining and enhancing our brand may require us to make substantial investments and these investments may not be successful. If we fail to successfully promote and maintain the LINE brand or if we incur excessive expenses in this effort, our business, financial condition and results of operations may be adversely affected.

***We rely primarily on Apple App Store and Google Play as the channels for downloads of LINE and applications offered on the LINE platform as well as processing of payments, and any deterioration in our relationship with either of them may negatively impact our business.***

We rely primarily on Apple App Store and Google Play as the channels for downloads of LINE and applications offered on the LINE platform as well as the processing of payments for our products and services. We expect that we will continue to rely on Apple App Store and Google Play for downloads of our applications as well as most of the payment processing for our products and services. Accordingly, we believe that maintaining successful partnerships with Apple and Google is critical to our success.

The operating policies of Apple or Google have an impact on the accessibility of our products and services. From time to time, we have had to adjust our monthly settlements with our payment processing service providers due to discrepancies in the recognition of user payments. If such discrepancies continue to occur frequently, it may have a material adverse impact on our results of operations and negatively affect our reputation. In addition, our pricing strategy is impacted by changes in the payment processing fees charged by Apple or Google. Our inability to pass along increases in the payment processing fees charged by Apple or Google to our users on a timely basis or a decrease in paying user engagement due to a price increase may negatively impact our net revenue or profit margin. If we fail to maintain good relationships with Apple or Google, it may adversely impact our ability to continue to offer our products and services or effect payment processing, which in turn could have a material adverse impact on our business.

***We have incurred significant operating losses in the past, and our ability to maintain profitability in the future is uncertain.***

We have incurred significant operating losses in the past. We recorded loss for the year of ¥7,972 million in 2015 and, although we recorded profit for the year of ¥7,104 million in 2016 and ¥8,210 million in 2017, we again recorded loss for the year of ¥5,792 million in 2018. Even though our revenues have grown over the years, from ¥140,704 million in 2016 to ¥167,147 million in 2017 and ¥207,182 million in 2018, our revenue growth rate has slowed in recent years and may do so in the future due to a variety of factors. We believe that our future revenue growth will depend on, among other factors, our ability to attract new users while retaining current users, increase user engagement and advertisement engagement, increase our brand awareness, compete effectively, maximize our sales efforts, demonstrate a positive return on investment for advertisers and successfully develop and operate new products and services. Accordingly, you should not rely on the revenue growth of any prior quarterly or annual period as an indication of our future revenue growth.

We expect our operating expenses to increase in future periods as we continue to expend substantial financial resources on:

- marketing and sales;
- global expansion;
- our technology infrastructure;
- attracting and retaining talented employees;
- strategic opportunities, including commercial relationships, acquisitions and capital injections;
- operation of newly developed or newly acquired businesses; and
- general administration, including personnel costs and legal and accounting expenses related to being a public company.

These investments, while increasing our expenses, may not result in an increase in revenues or growth in our business. For example, our marketing expenses have from time to time outpaced the growth of our revenues over the same period, which have materially impacted our results of operations. If we are unable to achieve adequate revenue growth and to manage our expenses, we may incur significant losses in the future.

***We have a limited operating history in the developing and rapidly evolving market for our products and services, which makes it difficult to evaluate our future prospects and may increase the risk that we will not be successful.***

We launched our LINE messaging application in June 2011 and other LINE products and services more recently, and our limited operating history makes it difficult to effectively assess our future prospects or forecast

our future results. You should consider our business and prospects in light of the risks and challenges we encounter or may encounter in this developing and rapidly evolving market environment. These risks and challenges include our ability to, among other things:

- increase our number of users and user engagement and monetize our products and services;
- successfully compete with other companies, some of which have substantially greater resources and market power than us, that are currently in, or may in the future enter, our markets, or duplicate the features of our products and services;
- successfully expand our business and enhance the LINE brand globally;
- continue to develop a reliable, scalable, secure, high-performance technology infrastructure that can efficiently handle increased usage globally;
- convince advertisers of the benefits of our advertising products and services compared to alternative forms of advertising;
- develop and deploy new features, products and services in a timely manner and the market acceptance of such offerings;
- identify, evaluate and manage risks involved in collaborating with third parties on new business ventures;
- cost-effectively manage and grow our operations;
- attract and maintain platform partners' interest in building on the LINE platform;
- attract, retain and motivate talented management and employees, particularly software engineers, designers and product managers;
- process, store, protect and use personal data in compliance with governmental regulations, contractual obligations and other obligations related to privacy and security; and
- defend ourselves against litigation and regulatory, intellectual property, privacy or other claims.

Failure to adequately address the risks and challenges associated with this market may adversely affect our business, financial condition and results of operations.

***Our user growth and engagement on mobile devices, which are required to access and use most of our products and services, depend upon effective operation with mobile operating systems that we do not control.***

We are dependent on the interoperability of LINE with popular mobile operating systems, such as iOS and Android, and, to a lesser extent, web browsers, such as those for Windows and Mac OS, that we do not control. Any changes in such operating systems or web browsers that degrade the functionality of our products or services or give preferential treatment to our competitors' products or services could adversely affect usage of our products and services. In addition, if the number of platforms for which we develop our products or services expands, it will result in an increase in our operating expenses.

We may not be successful in developing or maintaining relationships with key participants in the mobile telecommunications industry or in developing products that operate effectively with mobile operating systems,

networks or standards. In the event that it becomes more difficult for our users to access and use LINE on their mobile devices, or if our users choose not to access or use LINE on their mobile devices or use mobile devices that do not offer access to LINE, our user growth and user engagement could be harmed, and our business, financial condition and results of operations could be adversely affected.

***If we or our users experience disruptions in mobile telecommunications or internet services or if mobile telecommunications and internet service providers are able to block, degrade or charge for access to our products and services, we could incur additional expenses and the loss of users and advertisers.***

We depend on the ability of our users and advertisers to access mobile telecommunications services and the internet. Currently, this access is provided by companies that have significant market power in the mobile, broadband and internet access marketplaces, including incumbent mobile telecommunications companies, telephone companies, cable companies, government-owned service providers, device manufacturers and operating system providers, any of whom could take actions that degrade, disrupt or increase the cost of user access to our products or services, which would, in turn, negatively impact our business. The adoption of any laws or regulations that adversely affect the growth, popularity or use of mobile devices or the internet or disruption of our services in important markets for any political or other non-technical reasons could decrease the demand for, or the usage of, our products and services, increase our cost of doing business and adversely affect our business, financial condition and results of operations. We also rely on other companies to maintain reliable network systems that provide adequate speed, data capacity and security to us and our users. As mobile devices and the internet continue to experience growth in the number of users, frequency of use and amount of data transmitted, the mobile telecommunications and internet infrastructure that we and our users rely on may be unable to support the demands placed upon them. The failure of the operations of mobile telecommunications or internet infrastructure services that we or our users rely on, even for a short period of time, could undermine our operations, and our business, financial condition and results of operations could be adversely affected.

***Certain of our user metrics are subject to inherent uncertainties in measurement, and real or perceived inaccuracies in such metrics may harm our reputation and negatively affect our business.***

We use our internal data to calculate our MAUs, DAUs and MPUs. See “Conventions Used in This Annual Report” for definitions of such user metrics. While these numbers are based on what we believe to be reasonable estimates of our active user and paying user base for the applicable period of measurement, there are inherent challenges in measuring usage of our products and services across large online and mobile populations around the world. For example, each LINE account is linked to a mobile phone number and there may be multiple LINE accounts held by the same person if the person carries multiple smartphones and has chosen to download a LINE application on each smartphone.

We regularly review and may adjust our processes for calculating our internal metrics to improve their accuracy. Our measures of user growth and user engagement may differ from estimates published by third parties or from similarly-titled metrics of our competitors due to differences in methodology. If advertisers, platform partners or prospective investors do not perceive our user metrics to be accurate representations of our user base or user engagement, or if we discover material inaccuracies in our user metrics, our reputation may be harmed and platform partners and advertisers may be less willing to allocate their budgets or resources to our products and services, which may negatively affect our business.

***Our business and operating results may be harmed by a disruption in our service due to failures in or changes to our systems, or by our failure to timely and effectively expand and adapt our technology and infrastructure.***

Our reputation and ability to attract, retain, and serve our users is dependent in large part upon the reliable performance of LINE and our underlying technical infrastructure. Our systems may not be adequately designed with the necessary reliability and redundancy to avoid performance delays or outages that could be

harmful to our business. We have experienced, and may in the future experience, service disruptions, outages and other performance problems due to a variety of factors, including infrastructure changes, human or software errors, hardware failure, capacity constraints due to an overwhelming number of people accessing our products and services simultaneously, computer viruses, denial of service or fraud or security attacks. Our technical infrastructure is also vulnerable to the risk of damage from natural disasters, such as earthquakes and typhoons, as well as from acts of terrorism or other criminal acts. Our services and products also incorporate software that is highly technical and complex. Our software has contained, and may now or in the future contain, undetected errors, bugs or vulnerabilities. Some errors in our software code may only be discovered after the code has been released. In particular, the operation of some of our new fintech businesses as well as our LINE Clova AI platform and blockchain-related initiatives implicates complex technological and operational considerations, including technical or systematic issues that may arise in the ordinary course of business. In order to address such technical difficulties, we may need to make fundamental changes to the configurations or specifications of the underlying systems we use or expend a significant amount of time and resources to obtain the technical skills or expertise needed to adequately address such issues. Any such difficulties could have a material impact on our ability to deliver the products and services we intend to offer, reduce our reliability and harm our reputation.

In addition, a substantial portion of our network infrastructure is provided by third parties. Any disruption or failure in the services we receive from these providers could harm our ability to handle existing or increased traffic and could significantly harm our business. Any financial or other difficulties these providers face may also adversely affect our business, and we exercise little control over these providers, which increases our vulnerability to problems with the services they provide. In the event of a significant issue with the third-party network infrastructure supporting our network traffic, some of our products and services may become inaccessible or users may experience difficulties accessing our products and services. Any disruption or failure in our infrastructure could hinder our ability to handle existing or increased traffic on our platform, which could significantly harm our business.

As the number of our users increases and as our users generate and transmit increasing volumes of content, including photos, videos and music, we may be required to expand and adapt our technology and infrastructure to continue to reliably store and service such content. It may become increasingly difficult to maintain and improve the performance of our products and services, especially during peak usage times, as our products and services become more complex and our user traffic increases. In addition, we cannot provide assurance that we will be able to expand our data center infrastructure to meet user demand in a timely manner, or on favorable economic terms. If our users are unable to readily access LINE or access is disrupted, users may seek other service providers instead, and may not return to LINE or use LINE as often in the future. This would negatively impact our ability to attract users, platform partners and advertisers and increase engagement of our users. We expect to continue to make significant investments to maintain and improve the capacity, capability and reliability of our infrastructure. To the extent that we do not effectively address capacity constraints, upgrade our systems as needed or continually develop our technology and infrastructure to accommodate actual and anticipated changes in our users' needs, our business, financial condition and results of operations may be harmed.

***If our security measures are breached, or if our products and services are subject to attacks that disrupt or deny the ability of users to access our products and services, our products and services may be perceived as not being secure and users and advertisers may curtail or stop using our products and services.***

Our products and services involve the storage and transmission of large amounts of users' and advertisers' confidential information, and security breaches expose us to a risk of unauthorized access to this information, which may lead to improper use or disclosure of such information, ensuing potential liability and litigation, any of which could harm our reputation and adversely affect our business. From time to time, we experience cyber-attacks of varying degrees, including ones that may involve hackers planting malicious codes into our servers that remain dormant until initiated at some point in the future, making it difficult to measure the potential damage that could result from such attack or to detect such breach altogether. In particular, some of the

fintech businesses that we have recently begun to operate, or plan to operate, including insurance, online securities brokerage, consumer loans, internet banking and virtual currency exchange, as well as our LINE Clova AI platform and blockchain-related initiatives, among others, are likely to increase the amount and sensitivity of user information that we collect, which in turn would increase the risk of cyber-attacks.

Our security measures may also be breached due to employee error, malfeasance or otherwise. Given the rapid development and scope of the services we offer, including those developed in conjunction with third parties, instituting appropriate access controls and safeguards across all our services is challenging. Furthermore, outside parties may attempt to fraudulently induce employees, users or advertisers to disclose sensitive information in order to gain access to our data or our users' or advertisers' data or accounts, or may otherwise obtain access to such data or accounts. In addition, some platform partners may store information provided by our users through applications on the LINE platform or websites linked with LINE. If these third parties or platform partners fail to adopt or adhere to adequate data security practices or fail to comply with our terms and policies, or in the event of a breach of their networks, our users' data may be improperly accessed or disclosed.

Since our users and advertisers may use their LINE accounts to establish and maintain online identities, unauthorized communications from LINE accounts that have been compromised may damage their reputations and brands as well as ours. Any such breach or unauthorized access could result in significant legal and financial exposure, damage to our reputation and a loss of confidence in the security of our products and services, which could have an adverse effect on our business, financial condition and results of operations. Because the techniques used to obtain unauthorized access, disable or degrade service or sabotage systems change frequently and there are often unknown vulnerabilities that are not recognized until exploited against a target, we may be unable to anticipate these techniques and vulnerabilities or to implement adequate preventative measures. If an actual or perceived breach of our security occurs or the market perception of the effectiveness of our security measures is harmed, we could lose users and advertisers and we may incur significant legal and financial exposure, including legal claims and regulatory fines and penalties.

***Our financial results are likely to continue to fluctuate from quarter to quarter, which makes our period-to-period results volatile and difficult to predict.***

We emphasize growth and the increase in engagement of our user base over short-term financial results. Due in part to such focus, our quarterly financial results have fluctuated in the past and are likely to fluctuate in the future. As a result, you should not rely upon our past quarterly financial results as indicators of future performance. You should also take into account the risks and uncertainties frequently encountered by companies in rapidly evolving markets. Our financial results in any given quarter or fiscal period can be influenced by numerous factors occurring in a particular period, many of which we are unable to predict or are outside of our control, including:

- the development and introduction of new products or services by us or our competitors and their market acceptance;
- our ability to attract and retain advertisers;
- the growth of revenue sources as well as adjustments in fees charged to users and advertisers;
- increases in marketing, sales and other operating expenses that we may incur to grow and expand our operations and to remain competitive;
- seasonal fluctuations in spending by our advertisers, especially in Japan where a majority of companies end their fiscal year on March 31 and advertising spending is traditionally stronger in our fourth and first quarters due to year-end effects and companies trying to spend their advertising budgets before the close of their fiscal year;

- introduction of new products and/or services, which may lead to higher expenses;
- changes in the way online advertising is priced;
- non-recurring transactions and related accounting and tax implications therefrom, as well as changes to accounting principles applicable to our business;
- unforeseen contingencies, such as adverse litigation judgments, settlements or other litigation-related costs;
- fluctuations in currency exchange rates and changes in the proportion of our revenue and expenses denominated in foreign currencies; and
- changes in business or macroeconomic conditions.

***We may not be able to effectively manage our growth, which would harm our business and profitability.***

We continue to experience growth in our personnel and operations, which will continue to place significant demands on our management and operational and financial infrastructure. We face significant competition for qualified staff, particularly software engineers, designers and product managers, from other internet and high-growth technology companies, and we may not be able to hire new employees quickly enough to meet our needs. As we continue to grow, we are subject to the risks of over-hiring, overcompensating our employees and over-expanding our operating infrastructure, and to the challenges of integrating, developing and motivating a rapidly growing employee base in various countries around the world. As our organization continues to grow and we are required to implement more complex organizational management structures, we may find it increasingly difficult to maintain the strengths of our corporate culture, including our ability to quickly develop and launch new products and services. If we fail to effectively manage our hiring needs and successfully integrate our new hires, our employee morale, productivity and retention could suffer.

We also expect to continue to invest in our infrastructure in order to enable us to provide our products and services rapidly and reliably to users around the world, including in countries where we do not expect significant near-term monetization. Continued growth could strain our ability to maintain reliable service levels for our users and advertisers, develop and improve our operational, financial, legal and management controls, and enhance our reporting systems and procedures. As a public company, we incur significant legal, accounting and other expenses that we did not incur as a private company. Managing our growth will continue to require significant expenditures and allocation of valuable management resources. If we fail to achieve the necessary level of efficiency in our organization as it grows, our business, financial condition and results of operations would be harmed.

***The products and services we offer, including those relating to fintech, AI and blockchain, may subject us to additional regulatory requirements and other risks that could be costly and difficult to comply with or that could harm our business.***

The products and services we offer, including those relating to fintech, AI and blockchain, subject us to a variety of laws and regulations in Japan and elsewhere. For example, LINE Pay, our mobile payment service application, enables our users to make payments, regardless of their mobile carrier, on LINE Store and a number of select online and offline partner retail stores. We have also entered into, and are currently in the process of exploring, partnership and joint venture opportunities with reputable players in the financial services industry to offer new services related to insurance, online securities brokerage, consumer loans and internet banking, among others, on the LINE platform. See “Item 4.B. Business Overview — Our Products and Services — Strategic Business Segment — Others — Fintech” and “Item 4.B. Business Overview — Our Investments.”



Depending on how our products and services as well as payment processes evolve, we may become subject to a variety of laws and regulations in Japan and elsewhere, including those governing money transmission, payment settlement, e-commerce, electronic funds transfers, anti-money laundering, identification, counter-terrorist financing and cryptocurrencies. In some jurisdictions, the application or interpretation of these laws and regulations is not clear. For example, we are registered as a funds transfer service provider and issuer of prepaid payment instruments for third-party businesses in Japan and elsewhere through LINE Pay Corporation, our subsidiary engaged in mobile payment service, which will generally require us to demonstrate compliance with many domestic laws in these areas. In addition, we act as an intermediary in some of our new fintech services, such as LINE Insurance and LINE Smart Invest, which subjects us to a number of registration and other operational laws in Japan. See “Item 4.B. Business Overview — Regulation.” In the event that we are found to be in violation of any of these or other similar legal or regulatory requirements, or there is a delay in the implementation of internal systems and controls necessary to ensure compliance with such requirements, we may be subject to monetary fines or other penalties or sanctions such as a cease and desist order, or we may be required to make product changes, any of which could have an adverse effect on our business and financial results.

In addition, we may be subject to a variety of additional risks as a result of providing products and services relating to fintech, AI and blockchain, including:

- increased operational costs and diversion of management time and effort and other resources to deal with fraudulent or failed transactions, customer disputes or mismanaged outsourcing relationships;
- the impact on our relationships with existing service providers;
- increased capital costs in building out the infrastructure;
- heightened risk associated with the adoption of a variety of innovative technologies that may not yet be widely accepted;
- potential fraudulent or otherwise illegal activity by users, platform partners, employees or third parties;
- leakage of customers’ personal information and concerns over the use and security of collected information;
- restrictions on the investment of consumer funds used to transact payments; and
- additional disclosure and reporting requirements.

***We depend on key senior management to operate our business and execute our business strategy, and if we are unable to attract, retain and motivate our senior management and other key personnel, our operations may be negatively affected.***

Our ability to execute our strategy efficiently is dependent upon contributions from our key senior management. Our future success will depend on the continued service of our key executive officers and managers who possess significant expertise and knowledge of our industry. A limited number of individuals have primary responsibility for the management of our business, including our relationships with key platform partners. From time to time, there may be changes in our senior management team that may be disruptive to our business, and we may not be able to find replacement key personnel in a timely manner. In addition, acquiring and retaining qualified personnel, such as systems engineers and designers, will be necessary to our achieving sustainable growth. Any loss or interruption of the services of these individuals, whether from retirement, loss to competitors or other causes, or failure to attract and retain other qualified new personnel, could prevent us from effectively executing our business strategy, cause us to lose key platform partner relationships, or otherwise materially affect our operations.

***A downturn in macroeconomic conditions may result in reduced demand for our products and services.***

Our business is sensitive to global economic conditions and depends on demand from our user base. In addition, demand for our advertising services is primarily driven by advertising spending levels of our advertising customers in our four key markets, particularly Japan. There are many macroeconomic factors that influence consumer confidence and spending behavior, including the level of inflation and unemployment, fluctuations in energy prices and conditions in the real estate markets. Global economic conditions have deteriorated in recent years, with global financial and capital markets experiencing substantial volatility and disruption. Such developments have been caused by, and continue to be exacerbated by, among other things, the slowdown of economic growth in China and other major emerging market economies, adverse economic and political conditions in Europe and Latin America and continuing geopolitical and social instability in North Korea and various parts of the Middle East, as well as uncertainty regarding the timing and method of the United Kingdom's exit from the European Union, or Brexit, and a deterioration in economic and trade relations between the United States and its major trading partners, including China. The overall prospects for the global economy and the industries in which we operate in 2019 and beyond remain uncertain.

In recent years, the economic indicators in Japan, our largest market in terms of revenue and user base, have also shown mixed signs, and future growth of the Japanese economy is subject to many factors beyond our control. The current administration of Prime Minister Shinzo Abe, formed in late December 2012 and re-elected in October 2017, has introduced policies to combat deflation and promote economic growth. In addition, the Bank of Japan introduced a plan for quantitative and qualitative monetary easing in April 2013 and announced a negative interest rate policy in January 2016. However, the long-term impact of these policy initiatives on Japan's economy remains uncertain. The impact of Brexit on the Japanese economy and on the value of the Japanese yen against currencies of other countries in which we generate revenue, in both the short and long term, is also uncertain. In addition, the occurrence of large-scale natural disasters, such as the March 2011 Great East Japan Earthquake and the related Fukushima Daiichi nuclear disaster, as well as an increase in the consumption tax rate, which is expected to become effective in October 2019, may also adversely impact the Japanese economy, potentially impacting consumer spending and advertising spending by businesses. Any future deterioration of the Japanese or global economy may result in a decline in consumption that would have a negative impact on demand for our products and services and their prices.

***We may require additional capital to support our operations and the growth of our business, and we cannot be certain that financing will be available on reasonable terms when required, or at all.***

From time to time, we may need additional financing to operate or grow our business. If our cash resources are insufficient to satisfy our cash requirements, we may seek to issue additional equity or debt securities or obtain new or expanded credit facilities. For example, in September 2018, we issued zero coupon convertible bonds due 2023 and 2025 in the aggregate principal amount of approximately ¥146.3 billion (the "Convertible Bonds") through an offering pursuant to Regulation S under the U.S. Securities Act of 1933, as amended (the "Securities Act"), and a private placement to NAVER Corporation, our largest shareholder. Our ability to obtain additional financing, if and when required, will depend on investor and lender demand, our operating performance, the condition of the capital markets and other factors, and we cannot assure you that additional financing will be available to us on favorable terms, or at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to support the operation and growth of our business could be significantly impaired and our operating results may be adversely affected.

*Our business is subject to complex and evolving Japanese and foreign laws and regulations. These laws, regulations and actions are subject to change and uncertain interpretation, and could result in claims, changes to our business practices, monetary penalties, increased cost of operations or declines in user growth, user engagement or advertising engagement, restricted access to LINE or otherwise harm our business.*

We are subject to a variety of laws and regulations in Japan and elsewhere that involve matters central to our business, including privacy, rights of publicity, data protection and protection of personal information, content regulation, intellectual property, competition, protection of minors, consumer protection and taxation. Many of these laws and regulations are still evolving and could be interpreted or applied in ways that could limit our business or require us to make certain fundamental and potentially detrimental changes to the products and services we offer, particularly in the new and rapidly evolving industries in which we operate, including the fintech, AI and blockchain technology domains. The introduction of new products or services in our existing markets and the expansion of our business to other countries may subject us to additional laws and regulations, among others resulting from the need to obtain additional licenses and approvals to conduct our businesses as envisioned. In addition, the application or interpretation of these laws and regulations is not clear in some jurisdictions, which could make compliance more costly. Moreover, if third parties we work with, such as platform and other business partners, violate applicable laws or our policies, such violations may result in joint or secondary liability for us.

A number of proposals are pending before legislative and regulatory bodies that could significantly affect our business. For example, there have been a number of recent legislative proposals in Japan that would impose new obligations in areas such as privacy and liability for copyright infringement by third parties that could affect liabilities associated with websites that publish user-generated content. An amendment to the Act on the Protection of Personal Information of Japan, which includes establishment of a new regulatory authority and introduction of new regulations on handling of anonymous personal data and transfer of personal information to foreign countries, went into full effect in May 2017.

We collect personal information from our users and may expand our collection of personal information in order to comply with new and additional regulatory demands or we may independently decide to do so, particularly as we enter into new business areas. Having additional personal information may subject us to additional regulation, and governmental regulators have been applying increased scrutiny to social media companies in this respect. For example, the EU General Data Protection Regulation, which extends the applicability of stringent data protection laws to all foreign companies processing the data of EU residents, became effective in May 2018. Additionally, if third parties we work with, such as advertisers or platform partners, violate applicable laws or our policies, such violations may also put our users' privacy at risk and could in turn have an adverse effect on our business. Further, it is difficult to predict how existing laws and regulations will be applied to our business and the new laws and regulations to which we may become subject, and it is possible that they may be interpreted and applied in a manner that is inconsistent with our practices. For example, we believe that our products and services are not subject to regulations under the Act on Regulation on Soliciting Children by Using Opposite Sex Introducing Service on Internet of Japan, but there can be no assurance that we will not be subject to certain processes, administrative sanctions, fines or restrictions under such regulations in the future. Existing and proposed laws and regulations in any jurisdiction can be costly to comply with and can delay or impede the development of new products and services, result in negative publicity, significantly increase our operating costs, require significant time and attention of management and technical personnel and subject us to inquiries or investigations, claims or other remedies, including fines or demands that we modify or cease existing business practices.

The Payment Services Act of Japan (the "Payment Services Act") requires entities that engage in business activities involving advance payments from customers using prepaid payment instruments, such as virtual currencies, to set aside for such customers amounts covering at least 50% of the total amount of the unused amounts or credits represented by such instruments issued as of the end of either the first or third quarter

of any year (if such total amount is more than ¥10 million), either by making a deposit or by entering into guarantee or trust agreements, as well as to refund any remaining balance of virtual currencies issued, after providing at least 60 days' prior public notice, if those entities stop selling such virtual currencies. If any of our in-game items for which we have not made a deposit or entered into a guarantee or trust agreement, is deemed a prepaid payment instrument, it may become necessary to enter into additional arrangements to comply with the Payment Services Act requirement in connection with any such in-game items. While we intend to enter into additional guarantee agreements to meet any additional deposit requirements, entering into additional guarantee agreements will require us to pay guarantee fees equal to the contractual amount times a guarantee fee rate, and there is no assurance that we will be able to enter into additional guarantee agreements on favorable terms when required, or at all. Any failure to enter into contractual arrangements on terms satisfactory to us when required may adversely affect our business, financial condition, results of operations and/or reputation.

It is also possible that governments or relevant regulators of one or more countries may seek to censor content offered on the LINE platform in their country, restrict access to LINE from their country entirely, or impose other restrictions that may affect the accessibility of LINE in their country for an extended period of time or indefinitely. For example, as of the date of this annual report, our messaging services generally remain blocked in China. In the event that access to LINE is restricted, in whole or in part, in one or more other countries, our ability to retain or increase our user base and user engagement may be adversely affected, we may not be able to maintain or grow our revenue as anticipated, and our business, financial condition and results of operations could be adversely affected.

***We are regulated as a telecommunications company under Japanese law. If our business were deemed to be a regulated telecommunications business in multiple jurisdictions, it would significantly increase our expenses and may require us to change our products and other aspects of our business in potentially detrimental ways.***

We are regulated as a telecommunications company pursuant to Japanese law, and we have submitted required notifications to the Ministry of Internal Affairs and Communication of Japan. We are subject to the risk that, due to changes in telecommunications, e-commerce and other similar laws and regulations or in the application, interpretation or enforcement of both existing and future such laws and regulations, we may be required to comply with additional laws and regulations in Japan and in other jurisdictions. In addition, we are continually seeking ways to improve our products and services, which may involve from time to time upgrades or changes in the technological infrastructure on which our products and services are based and which could result in subjecting our activities to greater regulation in multiple jurisdictions. If we are required to comply with telecommunications, e-commerce and other similar laws and regulations in multiple jurisdictions, we would need to meet a number of obligations, which could vary from jurisdiction to jurisdiction, including new or enhanced compliance in the following areas:

- licensing and notification requirements;
- emergency calling requirements, including enhanced emergency calling through multi-line telephone systems;
- universal service fund contribution requirements;
- lawful interception or wiretapping requirements;
- privacy and data retention and disclosure requirements;
- limitations on our ability to use encryption technology;
- disability access requirements;
- consumer protection requirements and local dispute resolution requirements;

- requirements related to customer support;
- quality of service requirements;
- provision of numbering directories;
- numbering rules, including portability requirements;
- directory and operator services; and
- access and interconnection obligations.

If we are required to comply with telecommunications, e-commerce and other similar laws and regulations in multiple jurisdictions, it could affect our business in many ways and areas, including the following:

- the cost and general impact of compliance would be substantial, may require significant investments and organizational changes and may erode or eliminate our pricing advantage over competing forms of communication and, potentially, our ability to compete effectively;
- compliance may require us to make certain fundamental and potentially detrimental changes to the products and services we offer and the way we conduct business in certain countries, including withdrawing from markets;
- compliance may be technically difficult or impossible;
- we may need to change our distribution, marketing and sales activities;
- we may need to terminate or restructure partnerships and other commercial agreements; and
- we may need to establish a local presence in any given jurisdiction, sell our products through a local entity and be required to pay new or increased taxes in that jurisdiction.

***Our intellectual property rights are valuable, and our inability to protect them could reduce the value of our products, services and brand.***

Our trade secrets, trademarks, copyrights, patents and other intellectual property rights are important assets for us. We rely on, and expect to continue to rely on, a combination of confidentiality and license agreements with our employees, consultants and third parties with whom we have relationships, as well as trademark, trade dress, domain name, copyright, trade secret and patent laws, to protect our brand and other intellectual property rights. However, various events outside of our control may pose a threat to our intellectual property rights, as well as to our products, services and technologies. For example, we may fail to obtain effective intellectual property protection, or effective intellectual property protection may not be available in every country in which our products and services are available. In particular, the legal regimes relating to intellectual property rights in many of the countries in which we operate are limited and it is often difficult to effectively protect and enforce such rights in those countries. Also, the efforts we have taken to protect our intellectual property rights may not be sufficient or effective, and any of our intellectual property rights may be challenged, which could result in them being narrowed in scope or declared invalid or unenforceable. There can be no assurance that our intellectual property rights will be sufficient to protect against others offering products or services that are substantially similar to ours and compete with our business.

We also rely on non-patented proprietary information and technology, such as trade secrets, confidential information, know-how and technical information. While in certain cases we have agreements in place with

employees and third parties that place restrictions on the use and disclosure of this intellectual property, these agreements may be breached, or this intellectual property may otherwise be disclosed or become known to our competitors, which could cause us to lose competitive advantages resulting from this intellectual property. We are also pursuing registration of trademarks and domain names in Japan and in many jurisdictions outside of Japan. Effective protection of trademarks and domain names is expensive and difficult to maintain, both in terms of application and registration costs as well as the costs of defending and enforcing those rights. We may be required to protect our rights in an increasing number of countries, in a process that is expensive and may not be successful or which we may not pursue in every country in which our products and services are distributed or made available.

We are party to numerous agreements that grant licenses to third parties to use our intellectual property, including our trademarks. For example, some third parties distribute their content through LINE, embed LINE content in their applications, and make use of our trademarks in connection with their services. If the licensees of our trademarks are not using our trademarks properly, it may limit our ability to protect our trademarks and could ultimately result in our trademarks being declared invalid or unenforceable. There can be no assurance that we will be able to protect against the unauthorized use of our brand, trademarks or other assets. There is also a risk that one or more of our trademarks could become generic, which could result in them being declared invalid or unenforceable.

We also seek to obtain patent protection for some of our technology, and we have filed various applications in Japan and abroad for protection of certain aspects of our intellectual property and currently hold a number of issued patents in multiple jurisdictions. We may be unable to obtain patent or trademark protection for our technologies and brands, and our existing patents and trademarks, and any patents or trademarks that may be issued in the future, may not provide us with competitive advantages or distinguish our products and services from those of our competitors. In addition, any patents and trademarks may be contested, circumvented, or found unenforceable or invalid, and we may not be able to prevent third parties from infringing, diluting or otherwise violating them. Effective protection of intellectual property rights is expensive and difficult to maintain, both in terms of application and maintenance costs, as well as the costs of defending and enforcing those rights. Significant impairments of our intellectual property rights, and limitations on our ability to assert our intellectual property rights against others, could harm our business and our ability to compete.

***We may become party to intellectual property rights claims in the future that are expensive and time consuming to defend, and, if resolved adversely, could have a significant impact on our business.***

Technology companies own large numbers of patents, copyrights, trademarks and trade secrets, and frequently enter into litigation based on allegations of infringement, misappropriation or other violations of intellectual property or other rights. Many such companies, including many of our competitors, have substantially larger patent and intellectual property portfolios than we do, which could make us a target for litigation as we may not be able to assert counterclaims against parties that sue us for patent or other intellectual property infringement. In addition, various “non-practicing entities” that own patents and other intellectual property rights often attempt to aggressively assert claims in order to extract payments from technology companies. From time to time we have received, and may receive in the future, claims from third parties which allege that we have infringed upon their intellectual property rights. Furthermore, from time to time we may introduce new products and services, including in areas where we currently do not have an offering, which could increase our exposure to patent and other intellectual property claims from competitors and non-practicing entities. Some of our agreements with advertisers, platform partners and data partners require us to indemnify them for certain intellectual property claims against them, which could require us to incur considerable costs in defending such claims, and may require us to pay significant damages in the event of an adverse ruling. Such advertisers, platform partners and data partners may also discontinue use of our products, services and technologies as a result of injunctions or otherwise, which could result in loss of revenue and adversely impact our business.

As we face increasing competition and gain an increasingly high profile, patents and other intellectual property claims against us may grow. There may be intellectual property or other rights held by others, including issued or pending patents, that cover significant aspects of our products and services, and we cannot be sure that we are not infringing or violating, and have not infringed or violated, any third-party intellectual property rights or that we will not be held to have done so or be accused of doing so in the future. Any claim or litigation alleging that we have infringed or otherwise violated intellectual property or other rights of third parties, with or without merit, and whether or not settled out of court or determined in our favor, could be time-consuming and costly to address and resolve, and could divert the time and attention of our management and technical personnel. Some of our competitors have substantially greater resources than we do and are able to sustain the costs of complex intellectual property litigation to a greater degree and for longer periods of time than we could. The outcome of any litigation is inherently uncertain, and there can be no assurance that favorable final outcomes will be obtained. In addition, plaintiffs may seek, and we may become subject to, preliminary or provisional rulings in the course of any such litigation, including potential preliminary injunctions requiring us to cease some or all of our operations. We may decide to settle such lawsuits and disputes on terms that are unfavorable to us. Similarly, if any litigation to which we are a party is resolved adversely, we may be subject to an unfavorable judgment that may not be reversed upon appeal. The terms of such a settlement or judgment may require us to cease some or all of our operations or pay substantial amounts to the other party. In addition, we may have to seek a license to continue practices found to be in violation of a third party's rights. If we are required or choose to enter into royalty or licensing arrangements, such arrangements may not be available on reasonable terms, or at all, and may significantly increase our operating costs and expenses. As a result, we may also be required to develop or procure alternative non-infringing technology or discontinue use of the technology. The development or procurement of alternative non-infringing technology could require significant effort and expense or may not be feasible. An unfavorable resolution of any disputes and litigation could adversely affect our business, financial condition and results of operations.

***Fluctuation of the value of the Japanese yen against certain foreign currencies may have a material adverse effect on the results of our operations.***

Some of our foreign operations' functional currencies are not the Japanese yen, and the financial statements of such foreign operations prepared initially using their functional currencies are translated into Japanese yen. Since the currency in which sales are recorded may not be the same as the currency in which expenses are incurred, foreign exchange rate fluctuations may materially affect our results of operations. In 2016, 2017 and 2018, 28.3%, 27.4% and 28.4%, respectively, of our revenues were derived from markets outside of Japan, and we expect that an increasing portion of our revenues and expenses in the future will be denominated in currencies other than the Japanese yen. Accordingly, our consolidated financial results and assets and liabilities may be materially affected by changes in the exchange rates of foreign currencies in which we conduct our business. We strive to naturally offset our foreign exchange risk by matching foreign currency receivables with our foreign currency payables, and our overseas subsidiaries seek to conduct business transactions in the local currency of the respective market in which the transactions occur. When deemed appropriate, we also selectively use derivative contracts, primarily foreign currency forward contracts. However, there can be no assurance that our hedging activities will be successful in protecting us from adverse impacts from currency exchange rate fluctuations, and fluctuation of the Japanese yen against certain foreign currencies may have a material adverse effect on our results of operations. See "Item 11. Quantitative and Qualitative Disclosures About Market Risk" for a discussion of our foreign currency exposure and sensitivity analysis.

***We may have exposure to greater than anticipated tax liabilities.***

Our income tax obligations are based on our corporate operating structure and intercompany arrangements, including the manner in which we develop, value, and use our intellectual property and the valuations of our intercompany transactions. The tax laws applicable to our business activities, including the laws of Japan and other jurisdictions, are subject to interpretation. The taxing authorities of the jurisdictions in which we operate may challenge our methodologies for valuing developed technology or intercompany arrangements,

which could increase our worldwide effective tax rate and harm our financial position and results of operations. In addition, our future income taxes could be adversely affected by earnings being lower than anticipated in jurisdictions that have lower statutory tax rates and higher than anticipated in jurisdictions that have higher statutory tax rates, by changes in the valuation of our deferred tax assets and liabilities, or by changes in tax laws, regulations or accounting principles. We are subject to regular review and audit by tax authorities of various jurisdictions in which we operate. Any adverse outcome of such a review or audit could have a negative effect on our financial position and results of operations. For example, LINE Plus Corporation, our wholly-owned subsidiary in Korea, paid approximately ¥2.2 billion in additional taxes as a result of a tax audit conducted by the National Tax Service in Korea in September 2018. LINE Plus Corporation is currently in the process of appealing the results of the tax audit. In addition, the determination of our worldwide provision for income taxes and other tax liabilities requires significant judgment by management, and there are many transactions where the ultimate tax determination is uncertain. Although we believe that our estimates are reasonable, the ultimate tax outcome may differ from the amounts recorded in our financial statements and may materially affect our financial results in the period or periods for which such determination is made.

***Due to the global nature of our business, we are subject to trade, economic sanctions and export laws and regulations in various jurisdictions that may govern or restrict our business and we, our directors and officers, may be subject to fines or other penalties for non-compliance with applicable trade, economic sanctions and export laws and regulations.***

The U.S. Department of the Treasury's Office of Foreign Assets Control ("OFAC") administers and enforces certain laws and regulations ("OFAC Sanctions") that impose restrictions upon U.S. persons regarding dealings with or related to certain countries and territories, governments, entities and individuals. Even though non-U.S. persons generally are not always directly bound to comply with OFAC Sanctions, non-U.S. persons can be held liable for violations of OFAC Sanctions on various legal grounds, such as with respect to dealings in U.S. goods, services, or technology, or involving U.S. parties, causing violations by U.S. persons, or by engaging in transactions completed in part in the United States. In addition to the OFAC Sanctions, the United States maintains numerous secondary sanction programs that provide authority for the imposition of U.S. sanctions on foreign parties that engage in certain dealings with Iran and other U.S. sanctions targets regardless of whether there is a nexus to the United States. For example, non-U.S. persons can be sanctioned for engaging in dealings with certain persons on OFAC's Specially Designated Nationals ("SDN") list.

The European Union also enforces certain laws and regulations ("EU Sanctions") that impose restrictions upon nationals and entities of, and business conducted in, European Union member states with respect to activities or transactions with certain countries, governments, entities and individuals that are the subject of EU Sanctions. The United Nations Security Council and other governmental entities also impose similar sanctions.

The global nature of our business subjects us to the laws and regulations of various jurisdictions. Our significant international operations also expose us to economic sanctions risk and our continued expansion may increase the risk of violation of applicable economic sanctions laws and regulations. We intend our operations to comply with all applicable economic sanctions. Personal communications services are generally given favorable treatment under a number of economic sanctions regimes. However, given the global nature of our business, the fact that our business extends beyond personal communications services and the complexity and lack of certainty regarding the scope of some countries' laws, there can be no assurance that our efforts to comply with all applicable economic sanctions and embargo laws and regulations will be completely effective to detect and prevent violations. There can also be no assurance that we will be in compliance with all applicable economic sanctions laws and regulations in the future. Such a violation could result in reputational damage, civil or criminal penalties or the imposition of sanctions against us or our affiliates, all of which could have a material adverse effect on our business, financial condition and reputation.

LINE can be used in some countries and regions that are the subject of trade embargos and other economic sanctions (such as Iran), and we may have individual users who are the target of sanctions. We screen



our counterparties, banks, agents, suppliers and other business supporters against OFAC's SDN list prior to engaging or dealing with them, but we do not have a system in place to screen users of our services against OFAC's SDN list and, accordingly, cannot guarantee that our services are not and will not be provided to SDNs.

We had approximately 0.8 million MAUs in Iran in December 2018, and our business with Iran represented approximately 0.006% of our revenues in 2018, which consisted primarily of sales of Stickers and in-game items in the ordinary course of business. Our website containing media content directed at users in Iran, which we had launched in May 2016, was closed in November 2018. In February 2017, LINE PLAY Corporation, which is owned by LINE Plus Corporation, our wholly-owned subsidiary in Korea, established a local branch in Iran, which subsequently ceased all operations and remains closed as of December 31, 2018.

***NAVER Corporation, which owns more than 70% of the outstanding shares of our common stock, has substantial control over important corporate matters, and its interest may differ from those of our other shareholders.***

As of December 31, 2018, NAVER Corporation owned approximately 72.8% of the outstanding shares of our common stock. As a result, NAVER Corporation exercises substantial control over matters requiring approval by our shareholders, including the election of directors and the approval of mergers, acquisitions or other extraordinary transactions. NAVER Corporation may also have interests that differ from yours and may vote in a way with which you disagree and which may be adverse to your interests. This concentration of ownership may also have the effect of delaying, preventing or deterring a change in control of our company, could deprive our shareholders of an opportunity to receive a premium for their shares of our common stock as part of a sale of our company and might ultimately affect the market prices of shares of our common stock and American Depositary Shares ("ADSs"). In addition, through a private placement in September 2018, NAVER Corporation acquired half of the Convertible Bonds, which may be converted into shares of our common stock. See "Item 5.B. Liquidity and Capital Resources — Liquidity and Capital Resources — Cash Flows — Net Cash Provided by Financing Activities" and Note 15 of the notes to our annual consolidated financial statements.

We also engage in a number of other related party transactions with NAVER Corporation and our affiliates. See "Item 7.B. Related Party Transactions" for a discussion of our transactions with such entities. In the event NAVER Corporation, a publicly traded company, undergoes a change of control or experiences financial and other difficulties, it may materially and adversely affect our business, financial condition and results of operations.

***Our parent, NAVER Corporation, offers a variety of products and services to internet users and advertisers, and the absence of contractually delineated spheres of operations means that competition and conflicts of interest between us and NAVER Corporation could arise in the future.***

NAVER Corporation is publicly listed in Korea and also provides a variety of products and services to internet users, mobile application users and advertisers. NAVER Corporation operates the largest search portal site in Korea and is actively seeking to develop products and services to enhance the experience of mobile internet users. There is no contractual agreement between us and NAVER Corporation delineating our respective spheres of operation, and each company's development team is actively introducing new services independently of one another. Current or future products and services offered by NAVER Corporation could compete with our own. NAVER Corporation's business operations and the lack of contractual non-competition arrangements between NAVER Corporation and us could give rise to direct competition between us and conflicts regarding allocation of business opportunities and management and investment resources.

***Overlapping management and business relationships with NAVER Corporation, our parent, may adversely impact our business.***

From time to time, members of our senior management have overlapping duties with NAVER Corporation. For example, Mr. Hae Jin Lee, chairman of our board of directors, also serves as an executive

officer of NAVER Corporation. Such individuals, including Mr. Lee, have fiduciary duties to both NAVER Corporation and us under Korean and Japanese law, respectively. As a result, conflicts of interests may arise due to their dual roles, which may adversely impact our business.

***The market prices of shares of our common stock and ADSs may continue to be volatile or may decline regardless of our operating or financial performance.***

The market prices of shares of our common stock and ADSs may continue to be volatile. Market prices could be subject to wide fluctuations in response to various factors, many of which are beyond our control and may not be related to our operating or financial performance. Factors that could cause fluctuations in the market prices of shares of our common stock and ADSs include the following:

- price and volume fluctuations in the global stock markets from time to time;
- changes in operating performance and stock market valuations of other technology sector companies generally, or those in our industry in particular;
- sales of shares of our common stock by us or our parent company;
- failure of securities analysts and credit rating agencies to maintain coverage of us, changes in financial estimates by securities analysts and credit rating agencies who follow our company, or our failure to meet these estimates or the expectations of investors;
- the financial projections we may provide to the public (in the event we decide to provide any such projections), any changes in those projections or our failure to meet those projections;
- announcements by us or our competitors of new products and services;
- the public's reaction to our and NAVER Corporation's press releases, other public announcements as well as filings with the Securities and Exchange Commission (the "SEC") and the Kanto Local Finance Bureau (the "KLFB") and timely disclosure of information required by the Tokyo Stock Exchange in our case and filings with the Korea Exchange in NAVER Corporation's case;
- rumors and market speculation involving us or other companies in our industry;
- actual or anticipated changes in our results of operations or fluctuations in our results of operations;
- actual or anticipated developments in our business, our competitors' businesses or the competitive landscape generally;
- litigation involving us, our industry or both, or investigations by regulators into our operations or those of our competitors;
- developments or disputes concerning our intellectual property or other proprietary rights;
- announced or completed acquisitions of businesses or technologies by us or our competitors;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- changes in tax laws and regulations as well as accounting standards, policies, guidelines, interpretations or principles;

- any significant change in our management; and
- general economic conditions and slow or negative growth of our markets.

In addition, in the past, following periods of volatility in the overall market and the market price of a particular company's securities, securities class action litigation has often been instituted against these companies. This type of litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

***We may be classified as a passive foreign investment company for U.S. federal income tax purposes, which could subject U.S. investors in shares of our common stock or ADSs to adverse tax consequences, which may be significant.***

We will be classified as a passive foreign investment company (a "PFIC") in any taxable year in which, after taking into account our income and gross assets (and the income and assets of our subsidiaries pursuant to applicable "look-through rules") either (i) 75% or more of our gross income consists of certain types of "passive income" or (ii) 50% or more of the average quarterly value of our assets is attributable to "passive assets" (assets that produce or are held for the production of passive income). We believe that we were not a PFIC for U.S. federal income tax purposes in 2018 and do not expect to be a PFIC in subsequent taxable years. PFIC status is a factual determination made annually after the close of each taxable year on the basis of the composition of our income and the value of our active versus passive assets. Because our belief is based in part on the expected market value of our equity, a decrease in the trading price of our common stock and ADSs may result in our becoming a PFIC. Additionally, the overall level of our passive assets will be significantly affected by changes in the amount of our cash, cash equivalents and securities held for investment, each of which may be classified as passive assets under the PFIC rules.

If we were to be or become classified as a PFIC, a U.S. Holder, as defined in "Item 10.E. Taxation — United States Federal Income Taxation," that does not make a "mark to market" election may incur significantly increased U.S. federal income tax on gain recognized on the sale or other disposition of shares of our common stock or ADSs and on the receipt of distributions on the shares of our common stock or ADSs to the extent such distribution is treated as an "excess distribution" under the U.S. federal income tax rules. We do not intend to provide holders with the information necessary to make a "QEF election" (as described in "Item 10.E. Taxation — United States Federal Income Taxation — Passive Foreign Investment Company"). Thus, a U.S. Holder seeking to mitigate the potential adverse effects of the PFIC rules should consider making a mark to market election. Additionally, if we were to be or become classified as a PFIC, a U.S. Holder of shares of our common stock or ADSs will be subject to additional U.S. tax form filing requirements, and the statute of limitations for collections may be suspended if the U.S. Holder does not file the appropriate form. See "Item 10.E. Taxation — United States Federal Income Taxation — Passive Foreign Investment Company."

***Substantial future sales of our common stock or the conversion into common stock of the Convertible Bonds, or the perception that these transactions could occur, could depress the market prices of the shares of our common stock and ADSs.***

The market prices of the shares of our common stock and ADSs could decline as a result of sales of a large number of shares of our common stock or ADSs in the market or the conversion into common stock of the Convertible Bonds, and the perception that these transactions could occur may also depress the market prices of the shares of our common stock and ADSs. As of December 31, 2018, there were 2,701,400 shares of our common stock issuable upon exercise of outstanding stock options, and holders of our stock options may choose to exercise their options and sell all or a portion of their shares of our common stock on the Tokyo Stock Exchange or otherwise in Japan or abroad. As of December 31, 2018, our equity-settled and cash-settled employee stock ownership plans also held 1,979,775 shares of our common stock as treasury shares, which are granted from time to time as shares or cash (after sale of the underlying shares by the trust) as part of our share-

based payments to our employees. Recently, our shareholders approved a plan to grant stock options to our directors, and our board of directors approved a plan to grant stock options or other share-based compensation to our executive officers and employees pursuant to our new share-based compensation plan to be adopted in 2019. See “Item 6.B. Compensation,” “Item 6.D. Employees” and Note 27 and Note 32 of the notes to our annual consolidated financial statements. In addition, we issued the Convertible Bonds in September 2018. See “— We may require additional capital to support our operations and the growth of our business, and we cannot be certain that financing will be available on reasonable terms when required, or at all.” The conversion of some or all of these Convertible Bonds, or the anticipation of the possibility of such conversion, could also depress the market price of our common stock and ADSs. Moreover, our board of directors will be able to issue and sell additional shares of our common stock within the unissued portion of our authorized share capital, generally without any shareholder vote. Any such sales could cause the prices of the shares of our common stock and ADSs to decline.

***If securities or industry analysts do not publish or cease publishing research or other reports about us, our business or our market, or if they adversely change their recommendations regarding an investment in us, the prices of the shares of our common stock and ADSs or their trading volume could decline.***

The trading markets for the shares of our common stock and ADSs will be influenced by the research and other reports that securities or industry analysts may publish about us, our business, our market or our competitors. If any of the analysts who may cover us adversely change their recommendation regarding an investment in us, or provide more favorable relative recommendations about our competitors, the prices of the shares of our common stock and ADSs would likely decline. If any analyst who may cover us were to cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause the prices of the shares of our common stock and ADSs or their trading volume to decline.

***We do not intend to pay dividends for the foreseeable future.***

We have never declared or paid cash dividends on our capital stock. We currently intend to retain any future earnings to finance the operation and expansion of our business, and we do not expect to declare or pay any dividends in the foreseeable future. As a result, you may only receive a return on your investment if the market price of the shares of our common stock or ADSs increases.

***The requirements of being a public company may strain our resources and divert management’s attention.***

As a public company, we are subject to the reporting requirements of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”), the U.S. Sarbanes-Oxley Act of 2002, the Dodd-Frank Act, the listing standards of the New York Stock Exchange as applicable to a foreign private issuer, which are different in some material respects from those required for a U.S. public company, as well as the reporting requirements under the Financial Instruments and Exchange Act of Japan (the “FIEA”) and the rules of the Tokyo Stock Exchange. We also continue to prepare annual financial statements of LINE Corporation on a standalone basis in accordance with generally accepted accounting principles in Japan for Japanese reporting purposes in addition to preparing our consolidated financial statements in accordance with IFRS as issued by the IASB. Complying with these requirements is time-consuming and costly and places significant strain on our personnel, systems and resources. As a result of disclosure of information in filings and submissions required of a public company, our business and financial condition will become more visible, which may result in threatened or actual litigation, including by competitors, shareholders or third parties. If such claims are successful, our business and operating results could be harmed, and even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and harm our business and operating results.

*As a foreign private issuer, we are permitted to rely on exemptions from certain New York Stock Exchange corporate governance standards applicable to public U.S. companies as well as from certain disclosure requirements under the Exchange Act. This may afford less protection to holders of shares of our common stock or ADSs.*

We are exempted from certain corporate governance requirements of the New York Stock Exchange by virtue of being a foreign private issuer. We are required to provide a brief description of the significant differences between our corporate governance practices and the corporate governance practices required to be followed by U.S. companies listed on the New York Stock Exchange. See “Item 16.G. Corporate Governance.” The standards applicable to us are considerably different from the standards applied to public U.S. companies. For instance, we are not required to:

- have a majority of our board of directors be independent;
- have a compensation committee or a nominating or corporate governance committee consisting entirely of independent directors;
- obtain shareholder approval of equity compensation plans, equity offerings that do not qualify as public offerings for cash, and offerings of equity to related parties; or
- have regularly scheduled executive sessions with only independent directors.

We have relied on and intend to continue to rely on all of these exemptions for so long as we maintain our status as a foreign private issuer. In addition, we have a board of corporate auditors in lieu of an audit committee in accordance with applicable Japanese laws, which is permitted under Rule 10A-3(c)(3) of the Exchange Act for foreign private issuers, subject to certain requirements. As a result, you may not be provided with the benefits of certain corporate governance standards applicable to public U.S. companies.

Our parent, NAVER Corporation, controls a majority of the voting power of the outstanding shares of our capital stock, making us a “controlled company” within the meaning of the New York Stock Exchange corporate governance rules. As a controlled company, we are eligible to, and, in the event we no longer qualify as a foreign private issuer, we intend to, elect not to comply with certain of the New York Stock Exchange corporate governance standards, including the requirement that a majority of directors on our board of directors are independent directors and the requirement that our compensation committee and our nominating and corporate governance committee consist entirely of independent directors.

As a foreign private issuer, we are not subject to all of the disclosure requirements applicable to companies organized within the United States. For example, we are exempt from certain rules under the Exchange Act that regulate disclosure obligations and procedural requirements related to the solicitation of proxies, consents or authorizations applicable to a security registered under the Exchange Act. In addition, our directors and officers are exempt from the reporting and “short-swing” profit recovery provisions of Section 16 of the Exchange Act and related rules with respect to their purchases and sales of our securities. Moreover, we are not required to file periodic reports and financial statements with the SEC as frequently or as promptly as U.S. public companies. Accordingly, there may be less publicly available information concerning our company than there is for U.S. public companies.

*Rights of shareholders under Japanese law may be different from rights of shareholders in other jurisdictions.*

Our articles of incorporation and the Companies Act of Japan (the “Companies Act”) govern our corporate affairs. Legal principles relating to matters such as the validity of corporate procedures, directors’ and executive officers’ fiduciary duties and obligations and shareholders’ rights under Japanese law may be different

from, or less clearly defined than, those that would apply to a company incorporated in any other jurisdiction. Shareholders' rights under Japanese law may not be as extensive as shareholders' rights under the law of other countries. For example, under the Companies Act, only holders of 3% or more of our total voting rights or our outstanding shares are entitled to examine our accounting books and records. Furthermore, there is a degree of uncertainty as to what duties the directors of a Japanese joint stock corporation may have in response to an unsolicited takeover bid, and such uncertainty may be more pronounced than that in other jurisdictions.

***Holders of ADSs have fewer rights than shareholders under Japanese law, and their voting rights are limited by the terms of the deposit agreement.***

The rights of shareholders under Japanese law to take actions, including voting their shares, receiving dividends and distributions, bringing derivative actions, examining our accounting books and records, and exercising appraisal rights, are available only to shareholders of record. Because the depositary, through its custodian agents, is the record holder of the shares of our common stock underlying the ADSs, only the depositary can exercise those rights in connection with the deposited shares. ADS holders will not be able to bring a derivative action, examine our accounting books and records, or exercise appraisal rights through the depositary.

Holders of ADSs may exercise their voting rights only in accordance with the provisions of the deposit agreement. Upon receipt of voting instructions from them in the manner set forth in the deposit agreement, the depositary will make efforts to vote the shares underlying the ADSs in accordance with the instructions of ADS holders. The depositary and its agents may not be able to send voting instructions to holders of ADSs or carry out their voting instructions in a timely manner. Furthermore, the depositary and its agents will not be responsible for any failure to carry out any instructions to vote, for the manner in which any vote is cast or for the effect of any such vote. As a result, holders of ADSs may not be able to exercise their right to vote.

***Holders of ADSs may not receive distributions on shares of our common stock or any value for them if it is illegal or impractical to make them available to such holders.***

The depositary of our ADSs has agreed to pay holders of ADSs the cash dividends or other distributions it or the custodian for our ADSs receives on shares of common stock or other deposited securities after deducting its fees and expenses. Holders of ADSs will receive these distributions in proportion to the number of shares of our common stock that such ADSs represent. However, the depositary is not responsible for making such payments or distributions if it is unlawful or impractical to make a distribution available to any holders of ADSs. For example, it would be unlawful to make a distribution to a holder of ADSs if it consists of securities that require registration under the Securities Act, but that are not properly registered or distributed pursuant to an applicable exemption from registration. The depositary is not responsible for making a distribution available to any holders of ADSs if any government approval or registration required for such distribution cannot be obtained after reasonable efforts made by the depositary. We have no obligation to take any other action to permit distributions on our common stock to holders of ADSs. This means that holders of ADSs may not receive the distributions we make on shares of our common stock if it is illegal or impractical to make them available to such holders. These restrictions may materially reduce the value of our ADSs.

***Holders of ADSs may be subject to limitations on transfer of their ADSs.***

ADSs are transferable on the books of the depositary. However, the depositary may close its transfer books at any time or from time to time when it deems expedient in connection with the performance of its duties. In addition, the depositary may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depositary are closed, or at any time if we or the depositary deems it advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

***We may amend the deposit agreement without consent from holders of ADSs and, if such holders disagree with our amendments, their choices will be limited to selling the ADSs or withdrawing the underlying shares of our common stock.***

We may agree with the depository to amend the deposit agreement without consent from holders of ADSs. If an amendment increases fees to be charged to ADS holders or prejudices a material right of ADS holders, it will not become effective until 30 days after the depository notifies ADS holders of the amendment. At the time an amendment becomes effective, ADS holders are considered, by continuing to hold their ADSs, to have agreed to the amendment and to be bound by the amended deposit agreement. If holders of ADSs do not agree with an amendment to the deposit agreement, their choices will be limited to selling the ADSs or withdrawing the underlying shares of our common stock. No assurance can be given that a sale of ADSs could be made at a price satisfactory to the holder in such circumstances.

***We are incorporated in Japan, and it may be more difficult to enforce judgments obtained in courts outside Japan.***

We are incorporated in Japan as a joint stock corporation with limited liability. Most of our directors are non-U.S. residents, and a substantial portion of our assets and the personal assets of our directors and corporate executive officers are located outside the United States. As a result, when compared to a U.S. company, it may be more difficult for investors to effect service of process in the United States upon us or to enforce against us, our directors or executive officers, judgments obtained in U.S. courts predicated upon civil liability provisions of the federal or state securities laws of the U.S. or similar judgments obtained in other courts outside Japan. There is doubt as to the enforceability in Japanese courts, in original actions or in actions for enforcement of judgments of U.S. courts, of civil liabilities predicated solely upon the federal and state securities laws of the United States.

***Our shareholders of record on a given record date may not receive the dividend they anticipate.***

The customary dividend payout practice of publicly listed companies in Japan may significantly differ from that widely followed or otherwise deemed necessary or fair in foreign markets. We may ultimately determine any dividend payment amount to our shareholders of record as of a record date, including whether we will make any dividend payment to such shareholders at all, only after such record date. For that reason, our shareholders of record on a given record date may not receive the dividends they anticipate.

***Dividend payments and the amount you may realize upon a sale of shares of our common stock or ADSs that you hold will be affected by fluctuations in the exchange rate between the U.S. dollar and the Japanese yen.***

Cash dividends, if any, in respect of the shares of our common stock represented by our ADSs will be paid to the depository in Japanese yen and then converted by the depository into U.S. dollars, subject to certain conditions. Accordingly, fluctuations in the exchange rate between the Japanese yen and the U.S. dollar will affect, among other things, the amounts a holder of ADSs will receive from the depository in respect of dividends, the U.S. dollar value of the proceeds that a holder of ADSs would receive upon sale in Japan of the shares of our common stock obtained upon surrender of ADSs and the secondary market price of ADSs. Such fluctuations will also affect the U.S. dollar value of dividends and sales proceeds received by holders of shares of our common stock.

***Daily price range limitations imposed by the Tokyo Stock Exchange may prevent you from selling shares of our common stock at a particular price on a particular trading day, or at all.***

Share prices on the Tokyo Stock Exchange are determined on a real-time basis by the balance between bids and offers. The Tokyo Stock Exchange is an order-driven market without specialists or market makers to guide price formation. To prevent excessive volatility, the Tokyo Stock Exchange sets daily upward and

downward price range limitations for each listed stock based on the previous day's closing price or any "special quote," a price indicated by the Tokyo Stock Exchange to notify investors that there are orders beyond such price that may result in a large price fluctuation. Although transactions may continue at the upward or downward limit price if the limit is reached on a particular trading day, no transactions may take place outside these limits. Consequently, an investor wishing to sell shares of our common stock at a price above or below the relevant daily limit may not be able to effect a sale at such price on a particular trading day, or at all.

*Investors holding less than a full "unit" of shares will have limited rights as shareholders.*

Our articles of incorporation provide that 100 shares of our common stock constitute one "unit." As a result of the unit share system, ADS holders will only be permitted to surrender ADSs and withdraw underlying shares of our common stock constituting whole units. The Companies Act imposes significant restrictions and limitations on holders of shares of our common stock that do not constitute a whole unit. In general, holders of shares of our common stock constituting less than one unit do not have the right to vote with respect to those shares. For further discussion of the unit share system and its effect on the rights of our shareholders, see "Item 10.B. Memorandum and Articles of Association."

#### **Item 4. Information on the Company**

##### **Item 4.A. History and Development of the Company**

We were established in Japan in September 2000 as Hangame Japan Corporation, a joint-stock corporation, and subsequently changed our name to NHN Japan Corporation in August 2003. We began as an online game company and engaged in the development and distribution of online games under the Hangame brand. We subsequently expanded our business to portal services and acquired livedoor Co., Ltd., a Japanese internet portal company, in May 2010.

In June 2011, we launched the LINE messaging application to the public in Japan, followed by launches in other Asian countries. We initially focused on building our user base in Japan, but shortly afterwards began to actively conduct marketing efforts in other parts of Asia, where we believed there was significant market potential based on the relatively low level of smartphone penetration in a relatively large and growing population size. In order to more effectively pursue global expansion outside of Japan, we incorporated LINE Plus Corporation, which provides marketing and sales services for the LINE platform outside of Japan, in Korea in February 2013.

In February 2013, our board of directors decided to focus our business on the operation and expansion of the LINE platform and to dispose of our Hangame business along with related entities. We disposed of all of our interest in the Hangame business along with related entities in the form of a non-cash dividend to NAVER Corporation in April 2013. In April 2013, we were renamed as LINE Corporation. In September 2013, our board of directors approved a plan to dispose of our online match-making services business for the same reason. The disposition was completed in December 2013 through a sale to an unrelated third party. In September 2014, as a part of our continued focus on the expansion of the LINE platform, our board of directors decided to dispose of our data management business, which consisted of DataHotel Co., Ltd., a wholly-owned subsidiary, and the data management business was subsequently sold to a subsidiary of NHN Entertainment Corporation, a Korean online game portal company that was spun off from NAVER Corporation in August 2013.

In July 2016, we completed our initial public offering and listed our common stock on the First Section of the Tokyo Stock Exchange under the securities identification code 3938 and our ADSs, each representing one share of our common stock, on the New York Stock Exchange under the ticker symbol "LN."

Our legal and commercial name is LINE Corporation. Our principal executive offices are located at JR Shinjuku Miraina Tower, 23rd Floor, 4-1-6 Shinjuku, Shinjuku-ku, Tokyo, 160-0022, Japan, and our telephone number is +81-3-4316-2000. Our English website address is <http://linecorp.com/en/>.



The SEC maintains a web site (<http://www.sec.gov>), which contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC.

**Item 4.B. Business Overview**

**Our Mission and Vision**

Our mission is “Closing the Distance” by bringing people closer to each other as well as to a wide variety of information and services.

Our vision is to become the “smart portal” through which users can access the people, information, services, companies and brands that they choose, from anywhere they are and anytime they need to.



**Overview**

We are a leading global platform for mobile messaging and communication services, content distribution and life and financial services. Our mobile messaging application, which is the foundation of our “messaging services” and operates on all major mobile operating systems, enables our users to communicate through free instant messaging, Stickers and voice and video calls and serves as a smart portal to our other applications and services. We provide users with access to a wide range of social and creative content and services that satisfy our users’ individual needs for access to information and entertainment such as mobile games and music through our “content services,” as well as connected solutions that aim to satisfy increasingly sophisticated day-to-day needs of LINE users and further enhance their life and financial welfare, including fintech services such as mobile payment and other financial services offered on the LINE platform, through our “life and financial services.” We believe that the integration on our LINE platform of content and services offers our users a convenient way to connect and have fun with their family and friends, explore and share their interests and satisfy their daily needs with greater ease, which we believe enriches the user experience and ultimately contributes to higher user loyalty, while creating value for advertisers by connecting them with their target audience using the LINE platform.

We believe LINE is the leading mobile messaging application in Japan, Thailand and Taiwan in terms of number of users, and we have obtained substantial numbers of users in other parts of Asia, including Indonesia. We have achieved this growth through active marketing of LINE as well as customizing our content offerings to suit local preferences and needs. We believe the scale and growth of our user base in many countries provide us with powerful network effects, whereby LINE becomes more valuable with more users and creates additional incentives for existing users to encourage new users to join and to stay connected to their circle of friends. We benefit from such network effects where more activity on LINE leads to the creation and distribution of more content, which in turn attracts more users, platform partners and advertisers. We will continue to invest in new products and services and enhancements to our existing products and services, with the goal of further expanding our user base and increasing user engagement.

At the heart of our platform is the LINE mobile messaging application, which enables users to communicate with family, friends and other people they care about in the following ways:

- ***We address people’s basic communication needs.*** We focus on serving users’ everyday communication needs by supplying easy-to-use tools, including chat, voice call and video call, with reliable and secure connectivity wherever they are. As a result, our services have already become a meaningful part of the daily lives of many of our users.
- ***We enable closed and real relationship-based communication.*** We believe that the most rewarding and lasting forms of expression are those involving private, two-way exchanges between people with real relationships, which enhance intimacy and security. Our users can connect with other users they know by directly adding them as friends on LINE or by importing their mobile contact list into LINE. We believe that closer, intimate relationships are integral to the broader social web of activity, representing a more meaningful and influential subset of social networks.
- ***We make communication more enriching and expressive.*** We are a pioneer in the creation and design of Stickers, our larger and more expressive version of emoticons. Users can express their emotions or actions by sending a single Sticker instead of a thread of plain text. We believe that Stickers have made communication more convenient, creative and enriching.

Our user engagement is driven by such communication being coupled with activities that are an indispensable part of users’ daily lives. LINE has evolved into an extensive platform that provides not only the ability to communicate but also access to a wide range of localized entertainment content and services related to daily life, such as games, video, music and news applications, offering our users richer experiences. With an increasing amount of activity on the internet being conducted through mobile applications, we believe that LINE provides a fast, versatile and user-friendly platform for the discovery of content and services in the mobile era. Our broad array of mobile services, combined with our large and highly engaged user base, gives us unique opportunities to offer greater personalization in terms of the service and content offerings by introducing a range of application settings.

We believe that our user base provides attractive marketing opportunities for our advertisers. We allow advertisers to post “display ads” (previously known as “performance ads”) on our various communication and content offerings based on a bid-based advertisement distribution system with data analytics capabilities designed to help advertisers better reach their target audience. We also offer a wide variety of “account ads” (previously known as “messenger ads”) through the LINE messaging application, such as Official Accounts and Sponsored Stickers, allowing advertisers to direct their efforts and communication in a more targeted manner.

In recent years, we have focused our strategy on exploring a variety of new business opportunities related to fintech. Some of our recent fintech-related activities include, among others, expansion of services available to our users through LINE Pay, pursuit of alliances with reputable players in the financial services industry to offer new services related to insurance, online securities brokerage, consumer loans and internet banking on the LINE platform, as well as the launch of BITBOX, our virtual currency exchange in Singapore. Although most of these ventures are still in the early stages of operation, we believe that they have the potential to contribute to our operating results over the medium- to long-term, and we plan to continue to selectively pursue investment opportunities that we believe would further enhance our capabilities in the financial industry domain.

We are also continuing to focus our research and development efforts on emerging technologies, including AI and blockchain. Since the launch of our next-generation AI platform called LINE Clova in March 2017, we have continued to develop and strengthen our capabilities in AI. Through a series of LINE Clova-integrated smart speakers launched starting in October 2017, our users carry out a natural conversation with LINE Clova in engaging in a wide range of products and services offered by us and other third-party service

providers. We are currently also pursuing business opportunities related to blockchain, including the launch of LINK, the base digital token for our blockchain ecosystem.

Prior to and during our fiscal year ended December 31, 2017, we had a single reportable segment. On January 31, 2018, our board of directors approved the establishment of two reportable segments, consisting of our “core business” segment and our “strategic business” segment, in response to the expansion of our business and evolution of our business strategy.

Our reportable segments currently consist of:

- Our “core business” segment that includes:
  - “Advertising” consisting of (i) “display advertising” that utilizes our various communication and content offerings, such as Timeline, LINE NEWS and LINE TODAY, (ii) “account advertising” products and services such as Official Accounts, LINE@, Sponsored Stickers and LINE Point Ads and (iii) “other advertising” products and services such as LINE Part-time Job, livedoor and Matome; and
  - “Communication, content and others” consisting of (i) “communication” products and services such as Stickers and Themes created by third parties and sold on LINE Creators Market as well as Stickers and Themes created by us, (ii) “content” products and services such as LINE Games, LINE PLAY, LINE Manga, LINE Music and LINE Fortune, and (iii) “others” consisting of miscellaneous products and services.
- Our “strategic business” segment that includes:
  - “LINE Friends” products and services mainly consisting of sales of LINE characters merchandise; and
  - “Others” primarily consisting of fintech businesses (including LINE Pay and other financial services delivered through the LINE platform), the LINE Clova AI platform, blockchain-related initiatives and e-commerce. This segment also included LINE Mobile until April 2018, when LINE MOBILE Corporation (“LINE MOBILE”), the provider of mobile virtual network operator (“MVNO”) services, became accounted for as an associate under the equity method rather than as a consolidated subsidiary.

## **Our Products and Services**

We offer a wide range of products and services, and we generate revenues in a variety of ways and from various participants active on the LINE platform.

### ***Core Business Segment***

In our core business segment, we plan to continue to promote user engagement on the LINE platform for mobile messaging and communications services in our four key countries of Japan, Taiwan, Thailand and Indonesia. Leveraging on such engagement, we have recorded revenue growth and positive operating margins in recent years by offering a wide range of advertising products and services as well as communication and content products and services on our LINE platform. We anticipate continued steady growth in the proportion of total advertising spending by advertisers in our key markets that are directed to digital advertising. We will continue to invest selectively in initiatives to enhance and broaden the range of communication and content products and services that we offer, which we believe will contribute to our overall growth.

## *Advertising*

LINE offers targeted and interactive marketing products and services that provide advertisers with an attractive advertising platform. We recently completed a series of enhancements to various functionalities of our display ads platform, which we believe would lead to improved operational capabilities, upgraded targeting technology and enhanced user experience. We have also implemented modified pricing models for our account ads, which provide more attractive pricing options for both existing and new advertisers. Through such initiatives, we intend to improve our ability to deliver targeted and creative advertising products and services that are more tailored to our users' evolving engagement on the LINE platform and enable advertisers to more effectively promote their brands and amplify their visibility and reach.

Our advertising products and services consist primarily of the following:

### *Display Advertising*

We offer “display ads” (previously known as “performance ads”), which enable advertisers to display their advertisements to a large number of viewers on our various communication and content offerings, leveraging our large user base and data analytics capabilities. Our display ads are sold through a bid-based cost per mille (or cost per thousand) impressions (“CPM”) or cost per click (“CPC”) pricing model, depending on the type of advertisement, and our advertisers pay for qualifying impressions or click-through volume. We believe that our ability to help advertisers better target relevant users will steadily grow over time as we accumulate greater amounts of user data about their engagement activities on the LINE platform. Our display ads include:

- **Display Ads on Timeline.** Advertisements can be posted on our users' Timeline, which appear at select locations as users scroll through various postings on their Timeline (for a fuller description of Timeline, see “— Communication, Content and Others — Communication — Timeline”). Such advertisements may include links to external corporate websites, promotions of application downloads or branding campaigns featuring video clips. Video clips play automatically when a user scrolls through Timeline and reaches a viewport.
- **Display Ads on LINE NEWS and LINE TODAY.** Advertisements can be posted on certain advertisement spots on LINE NEWS in Japan and LINE TODAY in select countries outside of Japan to reach our users (for fuller descriptions of LINE NEWS and LINE TODAY, see “— Communication, Content and Others — Content — LINE NEWS and LINE TODAY”). Such advertisements may include links to external corporate websites, promotions of application downloads or branding campaigns.
- **Display Ads on Other Content Offerings.** Starting in October 2017 and November 2017, advertisements can be posted on certain spots on LINE Manga and LINE BLOG, respectively, to reach our users in Japan (for fuller descriptions of LINE Manga and LINE BLOG, see “— Communication, Content and Others — Content — LINE Manga” and “— Communication, Content and Others — Content — Miscellaneous”).

## Account Advertising

We also offer a wide variety of “account ads” (previously known as “messenger ads”) that are offered through the LINE messaging application, allowing advertisers to direct their efforts and communication in a more targeted manner. Our account ads include:

- **Official Accounts.** Official Accounts are LINE accounts created for large-scale businesses and celebrities with followers that enable them to send messages directly to LINE users who have added the Official Account as a LINE friend. Once added as a LINE friend, such Official Account holder is displayed on the users’ friends list on the LINE messaging application, and the users are instantly alerted of incoming messages through push notifications on their smartphones, as would be the case with any other messages they receive from their LINE friends. Official Accounts enable business enterprises to reach LINE users around the world who are interested in their business, products or services by notifying such users of their latest products and services as well as distributing coupons and promotional information to such users. Celebrities can also promote themselves and their latest works, such as movies and music albums, by connecting with their fans through their Official Accounts. We also offer Business Connect, a set of tools that allows our business partners to build customized applications, such as sales platforms and marketing tools, and Customer Connect, our customer service solutions offered to business partners using the LINE platform, both of which became integrated into Official Accounts as optional features for our customers in Japan starting in December 2018.

Outside of Japan, we currently charge our customers a monthly fee based on a number of factors, such as the contract period and the number of times messages are to be sent to users, among others. In Japan, we currently charge our customers based on a pay-as-you-go system pursuant to the implementation of a modified pricing model adopted in December 2018.

- **LINE@.** Our business users can create their own Official Accounts using our LINE@ application and send messages to, or post announcements on the Timeline of, other users who have added such LINE@ accounts as LINE friends, as well as respond to inquiries from other users on the LINE@ chat screen. For a monthly fee, users with LINE@ accounts can send more messages per month as well as image-based messages containing links to external websites.
- **Sponsored Stickers.** Our advertisers can offer “Sponsored Stickers” to LINE users to promote their brands, products and services. We work with advertisers to design sets of Sponsored Stickers, which often feature the advertisers’ proprietary characters. Sponsored Stickers are available globally and downloadable during a pre-determined period of time for free by users who add the sponsor as their LINE friend. We charge the advertisers fees based on the number of Sponsored Stickers offered by them as well as a Sticker design fee. Advertisers may add an advertisement on our virtual Sticker shop for an additional fee, as well as offer “Sponsored Themes” that customize the look of the LINE messaging application using the advertisers’ proprietary characters.
- **LINE Point Ads.** We offer “LINE Point Ads” to our advertisers which enable our users to receive LINE Points for free upon downloading certain applications, watching certain video commercials created by our advertisers or adding certain Official Accounts as LINE friends. We charge advertisers a fee per specific action taken by our users. Prior to May 2016, LINE Point Ads were referred to as LINE Free Coins.
- **LINE SP Solutions.** LINE SP Solutions provides our business partners with integrated tools through the LINE platform that can be used to promote sales of their products in retail stores, including participation in special marketing events as well as mileage programs.

### Other Advertising

Some of the other types of advertising products and services we offer include the following:

- **LINE Part-time Job.** LINE Part-time Job is a part-time job posting service provided through a joint venture with Persol Holdings Co., Ltd. in which we hold a 60.0% interest. Through this service, we allow potential employers to post part-time job openings on the LINE platform in the form of advertisements.
- **livedoor.** livedoor is a Japanese web portal that brings together information from a wide variety of sources and provides related services such as web search, news, weather and entertainment content and blog hosting. livedoor is one of the largest blogging service providers in Japan. We sell advertising space on livedoor, mainly through advertising networks such as Google and Yahoo Japan.
- **Matome.** We provide a personal web curation platform in Japan called Matome, which enables individual users to create web pages that bundle images, links and videos under a specific topic. Such pages help viewers to see information collected from various sources sorted by topic that reflect the curating user's perspectives and experiences on a specific topic. We also sell advertising space on Matome, mainly through advertising networks.

### *Communication, Content and Others*

#### Communication

LINE enables our users to enjoy free instant messaging and voice and video calls with each other using their mobile devices (including smartphones and tablets) or personal computers through mobile networks and internet service providers, as well as low-cost voice over internet protocol ("VoIP") services for domestic and international calls to mobile and fixed-line phone users globally.

Our messaging application and related products and services offered on the LINE platform provide our users with a convenient and fun communication experience and include the following:

- **Messaging.** LINE provides messaging services for a closed network of users who can select other users with whom they want to connect as "friends." New friends can be added through inclusion of new contact information in a user's mobile phone address book, searching for another user's LINE identification in our database, invitation by email or text messaging, scanning QR codes or, if physically adjacent, shaking users' smartphones simultaneously. The LINE messaging application can be downloaded for free onto mobile devices using major mobile operating systems as well as personal computers. Our users can send free one-to-one text and voice messages to their friends using data services provided by their mobile network carriers or over the internet. Users can also send images and videos and share their location information using the messaging service. LINE also offers group chat functions as well as livestreaming to participants during group chats.
- **Stickers.** While using the LINE messaging application, users can add emotional nuance and personalize their text messages by including Stickers, which are colorful icons depicting actions or expressions of our proprietary characters (such as Cony the Rabbit and Brown the Bear), characters from popular animation or manga created by third parties (such as Sanrio's Hello Kitty and Disney characters), and real life celebrities and athletes. Our selection of Stickers varies by country depending on a number of factors, including local preferences, timely events and licensing arrangements for third-party copyrighted characters. We continually look for new and innovative ways to let our users express themselves, including by releasing Stickers with enhanced features such as sound effects as well as animated and pop-up images.

Users can also design their own Stickers to be sold on LINE Creators Market through LINE Store, our web store accessible from mobile devices and personal computers. In June 2017, we also launched the LINE Creators Studio application that enables our users to more easily create Stickers using digital photos stored on their mobile devices, as well as user-generated drawings and writings. After a review process and subject to our approval, user-designed Stickers become available for sale on LINE Creators Market, and once purchased, become available for use on the LINE messaging application. Users receive a portion of the balance of sales proceeds as license fees after deducting fees charged by payment processors.

- **Timeline.** Our Timeline service, which users access through the LINE messaging application, enables users to share their day-to-day experiences with the public or within the closed circle of people whom they choose as their friends. Each user has a profile screen allowing text, Stickers, images and videos and other activity to be posted to express themselves and to share with others. Each user's Timeline displays that user's posts as well as posts by their friends and other interesting content that the user chooses. Our Timeline is designed to be simple and easy to view, and each post displays only the user profile, limited lines of text and any image or video included in the post. Users can choose with whom they share their posts and whose posts they receive on their Timeline.
- **Themes.** Our users can customize the look of the LINE messaging application on their devices by purchasing and downloading "Themes" that feature LINE and third-party licensed characters. Themes are used to decorate their start up screen, friends list, chat rooms, menu buttons and other displays. Users can also design their own Themes to be sold on LINE Creators Market.
- **Free Call and LINE Out (VoIP).** Our users can make free domestic or international voice calls and video calls to other LINE users worldwide who are registered as their friends on LINE. We also offer the LINE Out service, which provides a low-cost VoIP service that enables users to make domestic or international voice calls using the LINE messaging application to mobile and fixed-line phone users globally, regardless of the telecommunications network used by the recipient of the call and regardless of whether the recipient is a LINE user. We do not charge our users any initial setup fee, and users pay in advance for the minutes to be spent making calls by making an in-app purchase of minutes or purchasing minutes on LINE Store.

### Content

LINE serves as a content platform for various applications for our users, offering users a wide range of entertainment and other useful and interactive tools. Such applications include:

- **LINE Games.** We offer various games on the LINE platform. As of December 31, 2018, we offered 50 games, of which 44 games were developed by third-party game developers. We offer games in Japan and our other key markets. Typically, LINE Games are highly social by nature and simple to play. Unlike standalone games not offered on a broader platform, LINE Games enable users to invite their LINE friends to download the LINE Games that they enjoy playing. This, along with a leaderboard that displays scores of the player's LINE friends, encourages our users to connect with their friends through our games and helps them build and enhance their relationships through increased interaction with one another. All LINE Games are initially downloadable for free, typically with options to buy in-game items, such as extra lives or "boosters" that enhance the user's performance level, or to upgrade game versions. Our portfolio of games includes puzzle games, adventure games, board games and role-playing games.

We actively maintain the quality of games introduced on the LINE platform to promote an engaging experience for our users and enhance their overall satisfaction with LINE. To grow our inventory of high-quality games, we pursue a variety of partnerships, including in the form of

equity investments in game developers. For example, we are currently collaborating with Nintendo Co., Ltd., a video game company headquartered in Japan, and NHN Entertainment Corporation, a developer, publisher and distributor of mobile and computer games in Korea, to co-develop and jointly operate a new mobile game. In the past, we published most of the games developed by third-party game developers in the markets we serve on a non-exclusive basis. However, our general policy when offering new games on the LINE platform is to enter into new contractual arrangements with third-party game developers to become the exclusive distributor of their games in a particular market. The selection of game titles and pricing of in-game purchase items vary by country subject to local preferences and licensing arrangements for third party-owned intellectual property, and we adjust our portfolio of games from time to time to meet our users' evolving preferences.

- **LINE PLAY.** LINE PLAY is our virtual community that enables users to decorate their own avatars, or graphic identities selected to represent themselves on screen, write and exchange diaries with other users' avatars, visit other users' avatar rooms and chat with other users who share common interests. Community members can also play interactive games with other users. Users may purchase in-app items to dress up their avatars or decorate their avatar rooms. Unlike our LINE messaging service, LINE PLAY is designed as an open social network where users can communicate freely with other LINE users who are not their LINE friends.
- **LINE NEWS and LINE TODAY.** LINE NEWS is our personalized news-clipping service application that provides users with relevant real-time news stories based on the topics that users are most interested in, such as entertainment, sports, politics, economy, gourmet and fashion. LINE NEWS sends updates to users through push notifications, which allows seamless access to interesting and important news throughout the day without the need to leave the LINE messaging application. In addition, users can share interesting articles on their Timeline or with their friends through direct messages allowing for vibrant discussions. LINE NEWS is available to our users in Japan, and we offer similar services called LINE TODAY in our major markets outside of Japan. We introduced a dedicated tab for LINE NEWS and LINE TODAY in the LINE messaging application in 2017, which has contributed to an increase in popularity of such services.
- **LINE LIVE and LINE TV.** LINE LIVE is a real-time streaming service offered in Japan as well as markets outside of Japan that allows users to access live streaming personal videos or commercial events, such as concerts and sporting events, provided by artists, celebrities and corporate sponsors. In Taiwan and Thailand, we also offer an on-demand video service called LINE TV that allows users to select and watch videos from diversified channels that offer an array of localized content.
- **LINE Manga.** LINE Manga is our online comic bookstore that enables users to purchase and download from a selection of over 300,000 comic books, read them on mobile devices and organize their purchased comic books on a virtual bookshelf. Users can also recommend comic books to their friends and share links to such comic books on their Timeline.

In July 2018, we entered into an alliance with NAVER WEBTOON Corporation ("NAVER WEBTOON"), Korea's leading e-comics provider, to establish LINE Digital Frontier Corporation ("LINE Digital Frontier"), in which we hold a 70.0% interest, with NAVER WEBTOON holding the remainder of the interest in LINE Digital Frontier. Through the joint venture, we aim to leverage NAVER WEBTOON's technical expertise in the development, publishing and distribution of e-comics on LINE Manga.

- **LINE MUSIC.** LINE MUSIC is our on-demand music subscription service that enables users to purchase and stream songs, create playlists of their favorite music, send links to music or playlists



directly to friends on the LINE chat screen or share music with friends by streaming it on their Timeline.

- **Miscellaneous.** We also offer a wide range of other applications to further enhance user experience, including LINE Fortune (daily fortune telling service) and LINE Blog (blogging platform designed to foster greater interaction with celebrities).

#### Others

Our other sources of revenue include, among others, royalty and licensing fees we receive from our business partners for the use of the LINE brand and fees we charge our equity-method associates for the consulting services we provide to them from time to time.

#### ***Strategic Business Segment***

Our strategic business segment includes LINE Friends products and services and Others, primarily consisting of fintech businesses, the LINE Clova AI platform, blockchain-related initiatives and e-commerce. In this segment, we are investing in new ventures that we believe have the potential to contribute to our operating results over the medium- to long-term, particularly through our fintech businesses. We plan to continue to make significant investments in the promotion of our LINE Pay mobile payment services by enhancing our payment infrastructure. We are also pursuing new business opportunities, typically through collaboration with financial industry partners, in areas such as insurance, online securities brokerage, consumer loans, internet banking and virtual currency exchange.

#### *LINE Friends*

We engage in character marketing using internally-designed LINE characters such as Cony the Rabbit and Brown the Bear, primarily to promote our brand and appeal as well as further expand our user base. LINE characters initially gained popularity through Stickers and LINE Games that feature them, and we sell official LINE merchandise, such as plush toys, action figures, stationery goods, clothes, tableware and limited-edition collaboration items, at LINE Friends stores located in Korea, China, Japan, Taiwan, Hong Kong, Thailand and the United States. LINE Friends merchandise is also available through online stores. In addition, we license our proprietary LINE characters to third parties for production and sale of various LINE character-related merchandise.

#### *Others*

#### Fintech

- **LINE Pay.** As part of our efforts to diversify payment options available to LINE users, we launched LINE Pay, our mobile payment service application, in December 2014. LINE Pay enables our users to make payments, regardless of their mobile carrier, on LINE Store and a number of select online and offline partner retail stores. Depending on location, our users can also transmit funds to each other or withdraw cash from certain banks within their respective countries through LINE Pay by linking their accounts at select banks in their respective countries or adding money to their LINE Pay accounts at convenience stores or ATMs or through internet banking. We have also expanded the LINE Pay user base and transaction volume by enhancing our payment infrastructure that provides settlement through QR and other barcodes, NFC and physical payment cards (“LINE Pay Cards”). We plan to continue to expand the scope of LINE Pay by selectively incorporating it

into our applications and exploring partnership and joint venture opportunities both locally and globally in order to enhance the convenience of our users. For example, in an effort to allow our LINE Pay merchants to capture demands from foreign travelers visiting Japan, we have recently entered into strategic partnerships with Tencent, the operator of WeChat Pay in China, and NAVER Corporation, the operator of NAVER Pay in Korea, to enable users of such services to make payments at certain LINE Pay outlets in Japan without having to download an application or register for a new service. We also plan to allow LINE Pay users from other countries in Asia to use their local LINE Pay applications to make payments in Japan. Most recently in January 2019, we partnered with VISA Inc., a world-renowned financial services provider that facilitates electronic funds most commonly through Visa-branded credit cards, to launch a co-branded credit card to be used as a credit card on its own or be linked with a LINE Pay account.

- **LINE Points.** To further promote the use of LINE Pay, we offer LINE Points, a reward program that enables users to earn points that they can use to add to their LINE Pay balance, use points for purchases at LINE Store and online LINE Friends stores or redeem points for vouchers to be used at retail locations such as coffee shops or convenience stores in Japan. Our users can earn LINE Points equal to a percentage of amounts spent on LINE Pay and LINE SHOPPING (for a fuller description of LINE SHOPPING, see “— e-commerce — LINE SHOPPING”), as well as receive LINE Points from advertisers offered through LINE Point Ads.
- **LINE Kakeibo.** In November 2018, we launched LINE Kakeibo, a free personal financial account and asset management service available on the LINE platform. LINE Kakeibo allows users to manage their income and expenses more efficiently by consolidating a user’s bank accounts, credit cards, reward programs and e-commerce services into a central database and generating a personal account book that tracks a user’s financial activities, such as money transfers, online payments and account balance management.
- **LINE Insurance.** In October 2018, we launched LINE Insurance, which offers a variety of non-life insurance products such as travel insurance. We operate LINE Insurance through a business alliance between LINE Financial and Sompo Japan Nipponkoa Insurance Inc. (“Sompo Japan”), which was the first insurance provider in Japan to develop a smartphone-optimized insurance service that allows users to review and purchase a wide range of non-life insurance products and receive insurance-related consultation through the use of smartphones. We currently do not take on any insurance underwriting risk by limiting our role to that of an insurance broker.
- **LINE Smart Invest.** LINE Smart Invest is our investment management-related service accessible through the LINE platform. We provide our users with themed investment opportunities that enable our users to make diversified investments in companies selected by FOLIO Co., Ltd. (“FOLIO”), an online investment management company in which we hold a 41.4% interest, based on specific user-picked themes, such as fashion, travel and technology. See “— Our Investments — Investments by LINE Corporation — FOLIO Co., Ltd.”
- **BITBOX.** In July 2018, we launched BITBOX, a cryptocurrency exchange established in Singapore to facilitate the exchange of cryptocurrencies. BITBOX is operated by LINE Tech Plus Pte. LTD (“LINE Tech Plus”), a wholly-owned subsidiary of LVC Corporation, our wholly-owned subsidiary established in January 2018 for the purpose of operating and managing our cryptocurrency-related initiatives. BITBOX allows for the exchange of approximately 32 cryptocurrencies including Bitcoin and Ethereum, and supports approximately 15 different languages. BITBOX currently only allows for the exchange of cryptocurrencies and does not accept exchanges between fiat money and cryptocurrencies. For each trade that is executed on its exchange, BITBOX charges a portion of the transaction value as a commission. We have filed an application to operate a cryptocurrency exchange in Japan, which is currently being reviewed by the

Financial Services Agency of Japan (the “FSA”). We are also exploring opportunities to establish cryptocurrency exchanges in other countries. In addition, we and LVC Corporation entered into a memorandum of understanding with Nomura Holdings, Inc. (“Nomura”) in January 2019 to begin discussions on forming a financial business alliance. As of the date of this annual report, we consider our cryptocurrency balance and transaction volume associated with BITBOX to be immaterial to our business.

## AI

- **Clova Smart Speakers.** Our smart speakers operate on LINE Clova, our next-generation AI platform designed to enrich our users’ daily lives by integrating a wide array of advanced technologies based on human senses, such as voice recognition, artificial neural network and interactive engine systems. Through a series of smart speakers we launched starting in October 2017, our users carry out a natural conversation with Clova in engaging in a wide range of products and services offered by LINE and other third-party service providers, including access to weather and news, connecting to LINE MUSIC, reading and sending LINE messages and utilizing their smart speaker as an infrared remote controller for TVs or lighting equipment.
- **Clova Extensions Kit.** In July 2018, we released the Clova Extensions Kit, a development kit that allows third-party developers to scale LINE Clova functionalities. Our goal in releasing this kit was to invite third-party developers to incorporate LINE Clova AI technology into their new products, which would also enhance existing functionalities of our LINE Clova smart speakers through collaboration with third-party developers. We believe that leveraging the expertise of third-party developers in such a way not only strengthens our expertise in AI technology but also creates new sources of revenue for our AI business.
- **Clova Auto.** We are currently collaborating with Toyota Motor Corporation (“Toyota”) to prepare for the launch of Clova Auto, a LINE Clova-based voice-controlled navigation service to be integrated into Toyota’s advanced navigation system.

## Blockchain

- **LINK.** In August 2018, LINE Tech Plus launched LINK, the base digital token for our blockchain ecosystem. Decentralized applications (“dApps”), offered through our blockchain ecosystem, will reward our users with LINK for participating in our blockchain ecosystem, and users will be able to use LINK to pay for or receive benefits from a variety of contents and services offered through dApps. We are currently in the process of developing and launching a number of dApps to be offered in the blockchain ecosystem, including platforms for user-generated reviews on products and restaurants. LINK was listed on BITBOX in October 2018, so that they can be exchanged for other cryptocurrencies traded on BITBOX. For residents in Japan, LINK Points will be used instead of LINK. LINK Points will not be traded or exchanged until we receive relevant official regulatory authorization in Japan, and currently can only be used for conversion into LINE Points. As of the date of this annual report, we consider our transaction volume associated with LINK to be immaterial to our business.
- **Others.** We plan to continue to devote additional resources to developing our blockchain-related technologies and exploring blockchain-related business opportunities. For example, we established LINE Blockchain Lab in April 2018 to foster a dedicated team of engineers and researchers to develop blockchain-related technologies and services that implement such technologies.

## e-commerce

- **LINE SHOPPING.** Accessible within the LINE messaging application, LINE SHOPPING is our comprehensive online shopping gateway that we operate in association with leading online retailers

in Japan. Through LINE SHOPPING, users are able to search for products using various filters, compare the products that are available on each participating retailer's website in a consistent format, and then click through to the applicable retailer's website for purchases. A wide range of products are offered on LINE SHOPPING, including fashion, sporting goods, home decor, electronics, cosmetics and general goods. Users receive a portion of the purchase price back in LINE Points, which can be used to purchase Stickers and other items offered on our platform. We receive a commission based on the purchase price for sales that originate from LINE SHOPPING.

- **LINE Delima.** LINE Delima is our food delivery service available in Japan that enables our users to conveniently order from a wide range of gourmet options through the LINE messaging application. We operate the LINE Delima service in collaboration with Yume no Machi Souzou Iinkai Co., Ltd., a company in which we hold a 21.9% interest that operates the leading nationwide delivery portal site Demae-Can. See “— Our Investments — Investments by LINE Corporation — Yume no Machi Souzou Iinkai Co., Ltd.”
- **LINE TRAVEL jp.** LINE TRAVEL jp is our one-stop travel metasearch service that allows our users to search for, compare and book domestic and overseas hotels, flights and package tours on the LINE platform. We operate the LINE TRAVEL jp service in collaboration with Venture Republic Inc. (“Venture Republic”), a company in which we hold a 34.0% interest that operates a leading online travel metasearch and media outlet in Japan. See “— Our Investments — Investments by LINE Corporation — Venture Republic Inc.”
- **LINE MAN.** LINE MAN is our on-demand assistant service that provides a variety of services to our users in Thailand, including food delivery, taxi service and postal and messenger services.

## Our Investments

From time to time, we selectively invest in other companies and service providers to further develop existing services on our LINE platform, to launch new services on our LINE platform and to explore possible synergies, especially for services that have gained popularity in markets where we see growth potential for our LINE platform. For further information on our investments in associates and joint ventures, see Note 31 of the notes to our annual consolidated financial statements. We make such investments in a variety of ways, including direct acquisitions of equity interests, creation of joint ventures and investments in third-party venture capital and private equity funds. Notable investments in recent years made by us and LINE Financial, our wholly-owned subsidiary focused on investing in fintech businesses, include:

### *Investments by LINE Corporation*

- **Yume no Machi Souzou Iinkai Co., Ltd.** In October 2016, we acquired a 21.9% interest in Yume no Machi Souzou Iinkai Co., Ltd., operator of a leading nationwide delivery portal site Demae-Can that collaborates with us on our operation of LINE Delima food delivery service.
- **Snow Corporation.** In October 2016, we acquired a 25.0% interest in Snow Corporation, a subsidiary of NAVER Corporation and developer and operator of the selfie app SNOW. In May 2017, we transferred our camera application business, including B612 and LINE Camera, which was operated by our wholly-owned subsidiary LINE Plus Corporation, to Snow Corporation to pursue further synergies. In exchange for such transfer, LINE Plus Corporation received newly issued common shares of Snow Corporation, after which our interest in Snow Corporation increased to 48.6%. Currently, LINE Corporation and LINE Plus Corporation together own an aggregate 34.0% interest in Snow Corporation and the remaining interest is owned by NAVER Corporation.
- **LINE MOBILE Corporation.** In March 2018, in order to expand our MVNO business provided by LINE MOBILE, we entered into a partnership agreement with SoftBank Corporation

(“SoftBank”), pursuant to which our interest in LINE MOBILE decreased from 100.0% to 49.0% in April 2018, with SoftBank holding the remaining interest. This resulted in LINE MOBILE being accounted for as an associate under the equity method rather than as a consolidated subsidiary.

- **FOLIO Co., Ltd.** In January 2018, we entered into a capital alliance partnership with FOLIO, pursuant to which we acquired a 41.4% interest in FOLIO on a fully-diluted basis, assuming that all stock options provided by FOLIO to its employees have been vested and exercised. FOLIO provides, starting in October 2018, investment management-related services on LINE Smart Invest, accessible through the LINE platform.
- **Venture Republic Inc.** In August 2018, we entered into an alliance with Venture Republic, the operator of a leading online travel metasearch and media outlet in Japan, pursuant to which we acquired a 34.0% ownership interest in Venture Republic. We collaborate with Venture Republic to operate LINE TRAVEL jp, our one-stop travel metasearch service.
- **LINE Games Corporation.** In November 2018, in order to secure funds needed to invest further in game development and platform expansion, we raised ₩125 billion in a capital increase through a third-party allotment of new shares issued by LINE Games Corporation to Lungo Entertainment Ltd. (“Lungo”), a special-purpose entity established by the global investment firm Anchor Equity Partners (Asia) Limited, subsequent to which our interest in LINE Games Corporation decreased from 73.5% to 49.5%. This resulted in LINE Games Corporation being accounted for as an associate under the equity method rather than as a consolidated subsidiary.

#### ***Investments by LINE Financial***

- **LINE Securities.** In May 2018, LINE Corporation and LINE Financial entered into a joint venture agreement with Nomura and established LINE Securities Preparatory Corporation (“LINE Securities”) to offer online securities brokerage and securities investment consultation services on the LINE platform. LINE Financial holds a 51.0% interest in LINE Securities, with Nomura holding the remainder of the interest in LINE Securities. LINE Securities will begin operations once it has obtained the necessary regulatory approval.
- **LINE Credit.** In order to offer an easily-accessible and reliable source of consumer finance to our users through the LINE platform, we established LINE Credit Corporation (“LINE Credit”) in May 2018. In November 2018, LINE Financial, Mizuho Bank (“Mizuho”) and Orient Corporation agreed to participate in a third-party allotment of new shares issued by LINE Credit, with the resulting shareholding ratio to be 51.0%, 34.0% and 15.0%, respectively. LINE Credit is currently preparing for the launch of LINE Score, a personal credit scoring service, and LINE Pocket Money, a personal unsecured loan service that would determine the terms of a user’s loan based on such user’s credit score generated by LINE Score, within 2019.
- **LINE Bank.** LINE Financial has entered into several alliances with reputable banks to examine various ways to operate optimized partnership-based digital banking platforms in our major markets, outlined below:
  - *Japan.* In November 2018, LINE Financial and Mizuho agreed to establish a bank preparatory company in Japan through a joint venture. It is currently anticipated that LINE Financial will own 51.0% of the joint venture, with Mizuho holding the remainder of the interest in the joint venture. Through the bank preparatory company, we plan to obtain the regulatory approvals and licenses required to engage in the online banking business in Japan.

- *Taiwan.* The Preparatory Office of LINE Financial Taiwan Limited (“LINE Bank Prep Office”) applied for an internet-only banking license from Taiwan’s Financial Supervisory Commission in February 2019. LINE Bank Prep Office consists of LINE Financial Taiwan Limited (“LINE Financial Taiwan”), a wholly-owned subsidiary of LINE Financial Asia, and six partners, four of which are banks (CTBC Bank Co., Ltd., Standard Chartered Bank (Taiwan) Ltd., Taipei Fubon Commercial Bank and Union Bank of Taiwan) and two of which are telecommunications companies (Far EasTone Telecommunications Co., Ltd. and Taiwan Mobile Co., Ltd.). It is currently expected that the bank, if established, will be 49.9% owned by LINE Financial Taiwan, 40.1% owned by the four banks and the remaining 10.0% owned by the two telecommunications companies.
- *Thailand.* In December 2018, LINE Financial Asia established a joint venture with Kasikorn Vision Company Limited of Thailand, in which LINE Financial Asia holds a 49.99% interest, to launch a mobile banking application that would allow users to transfer funds and apply for personal loans on the LINE platform.
- *Indonesia.* We are in the process of completing the acquisition of a 20.0% ownership interest in PT Bank KEB Hana Indonesia (“KEB Hana Indonesia”) through LINE Financial Asia Corporation Limited (“LINE Financial Asia”), a wholly-owned subsidiary of LINE Financial. Through this alliance, we plan to offer deposit and microcredit products and a variety of other online banking services in Indonesia.

### **Payment Mechanism for Our Users**

Users of LINE and other applications offered on the LINE platform purchase products such as Stickers, in-game items or other in-app items primarily through the payment processing systems established by Apple App Store for iOS-based smartphones and Google Play for Android-based smartphones, for which such payment processing systems charge transaction fees based on a fixed percentage of the price paid by users. In addition, users of iOS- and Android-based smartphones may use LINE Coins as virtual credits for purchase of products and services on the LINE platform. Users may acquire LINE Coins, either by purchasing LINE Coins through their respective payment systems or converting their LINE Points into LINE Coins. We supplement such payment options with LINE Store, our web store accessible from mobile devices and personal computers, where users in select countries have the option to pay with prepaid cards or credit cards or through direct mobile billing that adds the purchase amount to their monthly phone bill. As part of our efforts to diversify payment options available for LINE users, we launched LINE Pay, our mobile payment service application, in December 2014.

### **Building and Maintaining User Trust**

We strive to create products and services that are safe, secure and easy to use. We dedicate significant resources to the goal of building user trust through developing and implementing programs designed to protect user privacy, promote a safe online environment and assure the security of user data.

#### ***Privacy and Sharing***

People come to LINE to communicate and share their experience with friends. Protecting user privacy is a critical consideration in our product and service development process. Our objective is to give users control over what they share and with whom they share. Our efforts regarding user privacy are fundamental to our business and are focused on assuring control, transparency and accountability as follows:

- **Control.** We believe that by providing our users with clear and easy-to-use controls, we will continue to promote trust in our products and services. We have introduced various personal information control tools and techniques. For example, a user can choose whether other users can search for his or her account and select the scope of the audience for his or her Timeline postings.

- **Transparency.** Our privacy policy relates to our data use practices and privacy features. We also offer a number of tools and features that make disclosure to users on how their information is used on the LINE platform. Our application settings feature enables users to view each of the applications they have chosen to use, the information generally needed by each application, and the audience with whom users have chosen to share their experiences. We believe that our transparency efforts enable users to make more informed decisions about their activities on the LINE platform.
- **Accountability.** We have implemented procedural safeguards as part of our privacy program. These include employing a dedicated team of privacy professionals who are involved in product development from design through launch, conducting ongoing review and monitoring of the way data is handled by existing features and applications and implementing systemic data security practices.

### *Safety*

We generally design our products and services to include safety tools. To communicate directly with other LINE users, each user has the option to register a “LINE ID” to allow other users to find such user through a LINE ID search. Each user may choose whether his or her account is visible to other users’ LINE ID searches. We also cooperate regularly with mobile network providers and educators as well as law enforcement officers to promote proper and legal use of the LINE platform.

### *Security*

We invest in technology, processes and people as part of our commitment to safeguarding our users’ personal information. We use both third-party developed and proprietary technologies to protect our users, including an intrusion detection system to protect the data entrusted to us, and we rely on multiple layers of network segregation using firewalls to protect against attacks or unauthorized access. Our security team actively scans for security vulnerabilities using commercial tools, penetration tests, code security reviews and internal and external audits. Our internal policy is to implement protective measures to safeguard user information, and we have acquired international certifications in both information security and privacy. Upon the occurrence of a cyber-attack or unauthorized access, we take remedial measures to prevent the recurrence of such incidents in the future by collecting and analyzing threat intelligence related to the incident, enhancing authentication mechanisms and access controls on our servers, and developing and deploying additional malware detection and prevention systems.

### **Marketing and Sales**

The LINE user community has grown with users inviting their personal contacts to connect with them, supported by our internal efforts to stimulate user awareness and interest, such as advertising and marketing campaigns on television and the internet. As we seek to increase our global footprint, we engage in active advertising and promotional campaigns to build our brand and further expand our user base.

We utilize television commercials and internet and mobile advertising as well as product placements in television shows as our primary advertising channels, and we continually assess the effectiveness of such channels to ensure that we utilize the most suitable channel for each of the various types of products and services we aim to promote. For example, we have focused our advertising efforts in recent years on publicizing our new products and services or major updates to our existing products or services, with a particular focus on our LINE Pay service. Our marketing expenses were ¥11,833 million in 2016, ¥15,477 million in 2017 and ¥20,311 million in 2018, excluding personnel-related costs of our marketing staff. While we believe that our ability to grow through network effects associated with the LINE platform will be fundamental to our growth in global markets, we expect to continue to invest significantly in marketing and promotional activities to further promote such growth.

We also focus on attracting and retaining advertisers. In Japan, we operate a dedicated sales force focused on providing support to advertisers throughout the stages of the advertising campaign cycle, from pre-purchase decision making to post-campaign analytics. Our direct sales activities are supplemented by third-party agencies that primarily assist with attracting large businesses that may be interested in creating Official Accounts, as well as application developers that may be interested in marketing their applications. We also invest in customer support for our users, platform partners and advertisers, and we regularly host conferences and other events to promote our products and services to platform partners and advertisers.

## **Technology**

We have assembled a team of highly skilled engineers and computer scientists whose expertise spans a broad range of technical areas. We have made significant investments in scalable infrastructure to support large-scale, real-time messaging systems, data management and analytics technologies, advertising technology, game development and publishing technologies and voice and video call quality solutions. In recent years, we have invested significant time and resources in developing and strengthening our capabilities in fintech, AI and blockchain technology.

### ***Scalable Infrastructure to Support Large-Scale Systems***

Our products and services are built on distributed computing architecture. We use a combination of off-the-shelf and custom software running on clusters of commodity computers to amass substantial computing capability. We intend to continue to develop server infrastructure that is operationally efficient, scalable and reliable, which is designed to do the following:

- adapt to meet the needs from increasing user base growth and activities on our platform through decentralized data networks;
- improve the functionality of servers through automated server management technology, thereby reducing cost and improving operational agility;
- automatically detect and respond to errors in our infrastructure components, including application servers, storage infrastructure and system networks; and
- maintain reliable redundant systems for our infrastructure components in Japan and abroad to reduce the possibility of service interruptions.

Our infrastructure enables the storage and processing of large datasets and deployment of our products and services to our users on a global basis. As our user base grows and the level of engagement and activities on our platform continues to increase in tandem with our introduction of new products and services, we will continue to expand our computing infrastructure to sustain and further improve our operating efficiency and to provide our products and services quickly and reliably to all users around the world. Our core messaging system enables real-time processing of a large amount of user traffic and serves as the basis for our LINE platform operations. Likewise, our scalable server infrastructure allows us to quickly ramp up capacity as we launch new products and services, including those that deploy increasingly sophisticated functionalities, such as our new fintech-related applications.



### ***Data Management and Analytics Technologies***

In order to provide each user with a personalized LINE experience, we process and analyze a vast and growing amount of content shared by our users, developers and advertisers. Accordingly, we have invested in developing technologies and analytics in areas including the following:

- a storage infrastructure that enables us to securely store hundreds of petabytes of data generated by our users;
- increased storage capacity for more efficient data distribution;
- a high-volume business intelligence system that enables large scale data analysis; and
- a data warehouse infrastructure that provides tools to enable easy data summarization, ad hoc querying and analysis of large datasets.

### ***Advertising Technology***

We offer advertisers a powerful medium through which they can reach our large user base in a targeted manner using our array of advertising products and services. Our advertising technology enables millions of relevant, targeted advertisements to be viewed simultaneously based on content a user views on our platforms. The key elements of our advertising technology include:

- a scalable online training and prediction system that provides well-calibrated click-through rate prediction to our auction system, which allows the most relevant advertisements to be viewed by a large number of targeted users in real time;
- a large-scale data management and analytics system that extracts hidden elements of advertisement performance from large volumes of relevant data;
- contextual advertising technology that employs techniques to analyze the content of individual pages and match advertisements to them, while taking into account factors such as optimal ad creatives and quality of landing pages; and
- an advertiser-friendly system that provides key optimization techniques that better analyze user preferences and content consumption patterns that enable advertisers to provide more personalized advertisements and effectively manage their advertising budgets to generate a higher return on their investment.

### ***Voice and Video Call Quality Solutions***

We believe that audio and video quality is critical to the enjoyment of the LINE experience, and we have made significant engineering and development efforts to improve our audio and video quality. Key areas of our investments include the following:

- proprietary audio and video communications technology that can reliably process millions of calls on a daily basis and group calls of up to 200 people at a time; and
- high performance codec and data transmission technologies and routing algorithms to improve overall call quality and user experience.

### ***Game Development and Publishing Technologies***

In order to continue to develop and publish successful games, we have invested in developing technologies designed to allow us to monetize games through in-game purchases, while providing players with an exciting experience. Areas of investment include:

- ability to conduct large-scale user data analysis during game play; and
- client/server technology designed to allow simultaneous, secure, fast and stable game play by users around the world.

### ***AI Technology***

In March 2017, we launched LINE Clova, a next-generation AI platform designed to enrich our users' daily lives by integrating a wide array of advanced technologies based on human senses, such as voice recognition, artificial neural network and interactive engine systems. We believe that the creation of a one-stop LINE Clova ecosystem will provide a solid foundation for the delivery of our products and services in the foreseeable future. Accordingly, we plan to continue to expend significant time and resources in strengthening our capabilities in AI. Key areas of our investments include the following:

- expansion of partnerships and alliances with third-party developers, manufacturers and content providers to develop additional services to be offered on the LINE Clova ecosystem;
- improving the functionalities of LINE Clova-integrated smart speakers and other AI-based systems and devices to allow for a more seamless and innovative interaction between us and our users; and
- research and development focused on next-generation AI capabilities, such as the development of a personalization engine that understands our users' tastes and preferences for various contents based on their activity logs and automatically supplies them with services tailored to their needs.

### ***Blockchain Technology***

In August 2018, we launched LINK, the base digital token for our blockchain ecosystem, and we are currently in the process of developing and launching a variety of dApps to be offered in our blockchain ecosystem. The operation of our blockchain ecosystem, built upon the circulation of LINK as the main currency, is powered by LINK Chain, our own brand of blockchain infrastructure that consists of decentralized, distributed digital ledgers of economic transactions made in cryptocurrencies and maintained on a peer-to-peer network. We believe that LINK Chain, given its resistance to manipulation of data and other technological benefits, provides a solid foundation for the growth of our blockchain ecosystem, and as such, plan to continue to expend a significant amount of resources in strengthening our capabilities in blockchain-related technologies. Key areas of our investments include the following:

- expansion of partnerships and alliances with other players in the blockchain industry to adopt existing technologies and research new blockchain technologies, including core consensus algorithms, virtual machines and smart contracts;
- improving performance and scalability of LINK Chain through the development of an inter-chain protocol that connects multiple blockchains in order to secure enough capacity for an increasing number of participants in our blockchain ecosystem; and
- enhancements to our development framework, a one-stop development toolkit and a programming interface with a complete set of wallets, dashboards and other administrative tools, which enables service operators in our blockchain ecosystem to seamlessly adopt blockchain technology into their services.

## Competition

We compete against various companies to attract and engage users, some of which have greater financial resources and substantially larger user bases. We face direct competition from other mobile messaging service providers such as Facebook's WhatsApp and Messenger and Tencent's WeChat, as well as mobile messaging services for specific operating platforms such as Apple's iMessage. We also face significant competition in almost every aspect of our business, including from companies such as Facebook, Google, Twitter and Yahoo Japan.

We face competition from mobile telecommunications companies, game companies, music and video streaming companies, mobile payment companies, fintech companies, AI companies, e-commerce companies and other internet-related companies that offer products and services that may compete with specific features of the LINE messaging service or other applications that we offer. We also compete with traditional and online media businesses for a share of advertisers' budgets and in the development of tools and systems for managing and optimizing advertising campaigns. As we introduce new products and our existing products evolve, or as other companies introduce new products and services, we may become subject to additional competition.

The key areas in which we compete include:

- **Users and User Engagement.** We compete to attract and retain users. We believe that our ability to compete effectively for users depends on many factors, including the utility, ease of use, performance and reliability of our products and services; price; the amount, quality and timeliness of content generated by our users; our ability to establish and maintain relationships with platform partners; and our reputation and the strength of our brand. We also compete to attract and retain developers to build compelling games and other applications offered on the LINE platform, primarily based on size and composition of our user base, and our ability to drive traffic to developers' applications.
- **Advertising.** A significant portion of our revenue is generated from the sale of advertising services, and we face significant competition for advertiser spending. We believe that our ability to compete effectively for advertiser spending depends on many factors, including the size and composition of our user base; the effectiveness of our advertising targeting capabilities; the timing and market acceptance of our advertising services; our marketing and selling efforts; and the return our advertisers expect to receive from our advertising services.
- **Personnel.** We experience significant competition for highly skilled personnel, including senior management, engineers, designers, product managers and professionals with expertise in the fintech, AI and blockchain technology domains. Our growth strategy depends in part on our ability to retain our existing personnel and recruit highly skilled employees. Competition for highly skilled personnel is intense, particularly in Japan where our headquarters is located, and we compete for qualified personnel with online and mobile businesses, other companies in the technology industry and traditional media businesses. We believe that our ability to compete effectively for highly skilled personnel depends on many factors, including a work environment that encourages independence, creativity and innovation; opportunities to work on challenging, meaningful and important products; and compensation.

## Regulation

We are subject to a number of Japanese and other foreign laws and regulations that affect companies conducting business on the internet, many of which are still evolving and being, or have not yet been, tested in courts, and could be interpreted in ways that could harm our business. These may involve user privacy, rights of publicity, data protection, telecommunications, liability of providers of online services for activities of their users

and other third parties, content, intellectual property, distribution, electronic contracts and other communications, competition, protection of minors, consumer protection, taxation and online payment services. Because our services are accessible worldwide in a variety of countries, certain jurisdictions may claim that we are required to comply with their laws, including even jurisdictions where we have no local entity, employees or infrastructure.

#### ***Regulations regarding Privacy and Protection of Personal Information and User Data***

We are subject to laws and regulations, as well as pending legislative and regulatory proposals, regarding privacy and protection of user data and personal information, which could affect us in many jurisdictions throughout the world. The application and interpretation of these and other similar international laws and regulations concerning data protection and personal information is often uncertain, particularly in the new and rapidly evolving industry in which we operate, and in certain countries where the scope and interpretation of such laws and their application to the internet is in a state of flux. There is a risk that such laws may be interpreted and applied in conflicting ways in different states, countries, or regions, and in a manner that is not consistent with our current data protection practices. There also may be limited precedent in certain jurisdictions with regard to enforcement or interpretation of these laws.

In Japan, the Act on the Protection of Personal Information and its related guidelines impose various requirements on businesses, including us, that use databases containing personal information. Under this Act, we are required to lawfully use personal information we have obtained within the purpose of use we have specified and take appropriate measures to maintain security of such information. We are also restricted from providing personal information to third parties. An amendment to this Act was put into full effect on May 30, 2017. This amendment includes establishment of a new regulatory authority and introduction of new regulation on handling of anonymous personal data and transfer of personal information to foreign countries.

#### ***Privacy Policies***

We post a privacy policy and terms of service with our applications, in which we describe our practices concerning the use, processing and disclosure of user data. Any failure by us to comply with our posted privacy policy or privacy related laws and regulations could result in proceedings against us by governmental authorities or others, which could harm our business. Our compliance with our privacy policy may be subject to regulation by governmental agencies in various jurisdictions. For example, the U.S. Federal Trade Commission may bring enforcement actions against unfair and deceptive trade practices, including the violation of privacy policies, and European authorities may take actions against violations of privacy policies as well.

#### ***Regulations of Telecommunications and Portal Businesses***

The Telecommunications Business Act of Japan (the “Telecommunications Business Act”) generally requires that those who plan to provide telecommunications services be registered as telecommunications business operators. However, as long as the scale of the telecommunications circuit facilities to be installed for the telecommunication services and the scope of service area to be covered do not exceed certain thresholds set forth in an ordinance of the Ministry of Internal Affairs and Communications of Japan, or fall within a certain category of radio facilities, submission of a notice to the Minister of Internal Affairs and Communications of Japan, rather than registration, is required. We believe that our facilities and services do not exceed such thresholds, and we are subject to notification requirements. Although it is not expressly clear, we believe that our telecommunications service related to LINE Out is not subject to the Telecommunications Business Act since it is provided by LINE Plus Corporation, an overseas entity.

As a telecommunications business operator, we are prohibited from acquiring, using without permission, or leaking private communications (including, but not limited to, the contents of communications, the dates and places of the communications, the names and addresses, telephone numbers and IP addresses). The Telecommunications Business Act also requires a telecommunications business operator to, among other things,

provide its service in a fair manner and, in certain emergency situations such as a natural disaster, prioritize important public communications. If, among other things, the acquisition, use without permission or leakage of private communications occurs or is not appropriately prevented in connection with the operation of the telecommunications business, a telecommunications business operator does not satisfy the foregoing requirements, or its business operation is otherwise inappropriate or unreasonable, such telecommunications business operator may be subjected to administrative or criminal sanctions.

The Provider Liability Limitation Act of Japan regulates a provider of communications services (the “specified communications services provider”) that circulates electronic information publicly through the internet, and our portal services are subject to such regulations. While this act limits the scope of liability of a specified telecommunications services provider that will be incurred when anyone’s rights are infringed upon as a result of the circulation of electronic information in connection with its communications services, it requires a specified communications services provider to disclose certain information related to those who engage in such infringement.

### ***Payment Services Regulations***

The Payment Services Act regulates prepaid payment instruments such as the prepaid cards and virtual currencies that we sell in Japan. Because we issue such prepaid instruments, we must comply with certain requirements, including an obligation to deposit or enter into certain guarantee or trust agreements for at least 50% of the total amount of unused amounts or credits represented by the instruments issued as of the end of either the first or third quarter of any year, if such total amount is more than ¥10 million; an obligation to refund any remaining amount of money or virtual currencies issued, after providing at least 60 days’ prior public notice, if we stop selling prepaid cards or virtual currencies, and general restrictions on refunds in other situations; and an obligation to secure any private information obtained in connection with our prepaid cards and virtual currencies. We may be subjected to administrative or criminal sanctions if we fail to fulfill such obligations.

We must also register with the director of the competent local finance bureau of the Ministry of Finance if our prepaid payment instruments can be used to purchase goods or services that are offered not only by ourselves or other closely related parties, including our affiliates, but also by third parties. We issue such instruments, and we are registered with the Director of the KLF. The Director is authorized to issue a business improvement order or business suspension order, or cancel our registration if we fail to comply with such regulations.

The Payment Services Act also regulates funds transfer services. As our service allows our users to remit funds to each other or withdraw or deposit cash at convenience stores, ATMs or through internet banking, in each case up to ¥1 million, by linking their accounts at select banks, we are required to register and have registered with the Director of the KLF. We must also comply with certain other requirements, including an obligation to deposit or enter into certain credit guarantee or trust agreements for the greater of ¥10 million or the full amount of our outstanding obligations as service provider payable to transferees in Japan plus the costs associated with exercise of their rights as creditors of our funds transfer service. The Director of the KLF is authorized to issue a business improvement order, a business suspension order or cancel our registration if we fail to comply with such regulations.

As a result of a recent amendment to the Banking Act of Japan (the “Banking Act”), providers of Electronic Settlement Services (as defined under the Banking Act) are subject to the Banking Act starting on June 1, 2018. Any business operator which, upon entrustment from customers (such as depositors), acquires information from banks concerning deposit accounts and provides such information to customers through an application programming interface (“API”) provided by such banks needs to be registered with the competent local finance bureau of the Ministry of Finance as an Electronic Settlement Agent (as defined under the Banking Act). We are registered as an Electronic Settlement Agent in connection with our LINE Kakeibo service. An Electronic Settlement Agent is also required to enter into contracts with banks in connection with the use of APIs

by no later than May 31, 2020. Such contracts must include, among others, provisions relating to the allocation of liability for any loss or damage that may arise in connection with Electronic Settlement Services. Furthermore, an Electronic Settlement Agent is required to provide its customers with certain important information relating to the applicable Electronic Settlement Service, including policies regarding compensation for loss or damage suffered by customers. The FSA has the authority to issue a business improvement order or a business suspension order, or cancel our registration if we fail to comply with such regulations.

Various laws and regulations in the United States, such as the Bank Secrecy Act, the Dodd-Frank Act, the USA Patriot Act, and the Credit Card Act, impose certain anti-money laundering requirements on companies that are financial institutions or that provide financial products and services. Under these laws and regulations, financial institutions are broadly defined to include money services businesses such as money transmitters, check cashers, and sellers or issuers of stored value. Requirements imposed on financial institutions under these laws include customer identification and verification programs, record retention policies and procedures and transaction reporting. We do not believe that we are a financial institution subject to these laws and regulations. However, it is possible that payments and other transactions on the LINE platform could deem us a financial institution subject to applicable U.S., state or foreign regulations.

### ***Regulations on Advertising***

The Premiums and Representations Act of Japan stipulates the restricted methods and means of various advertisements, representations and sales promotions, in a broad sense. When we advertise our products or services, such as games, on the internet, we must provide appropriate information under this Act, so as not to mislead our users.

In addition, regulations promulgated under the Premiums and Representations Act of Japan prohibit the inclusion in our games of certain mechanisms that are considered to excessively promote in-game purchases. These mechanisms typically feature a system in which users may pay for the chance to win an in-game item by random selection from different items, with certain combinations of items won providing users with special premium in-game items.

### ***Regulations to Protect Minors***

The Act on Establishment of Enhanced Environment for Youths' Safe and Secure Internet Use of Japan regulates an administrator of servers publicly accessible through the internet (the "specified server administrator"), aiming to protect youths under the age of eighteen. Under this act, if the specified server administrator learns of any situation where harmful information that materially impairs the sound growth of youths has been provided, or it makes such information available to the public through the internet by the use of its servers, it will be required to make efforts to take measures to prevent youths from accessing such information. The specified server administrator is also required to make efforts to establish a system to receive information or inquiries from the public regarding any harmful information it sends, and to prepare and keep records of any measures that it has taken to prevent underage access to harmful information.

The Act on Regulation on Soliciting Children by Using Opposite Sex Introducing Service on Internet of Japan requires that those who operate an opposite sex introduction service through the internet submit a notification to the Public Safety Commission, and strive to take certain actions to prevent sexual offenses against children conducted through an opposite sex introduction service through the internet. Although we believe that none of our products or services fall within the definition of an "opposite sex introduction service," it is not expressly clear whether our interpretation is correct. In the event that any regulatory authority or court adopts a different interpretation, we may become subject to the regulations applicable to opposite sex introduction services under this Act, including the administrative or criminal sanctions thereunder.

### ***Regulations on Money Lending Businesses***

The Money Lending Business Act of Japan (the “Money Lending Act”) governs the operation of money lending businesses. In accordance with the Money Lending Act, and in preparation for the launch of LINE Pocket Money, our loan service, we have registered as a Money Lender (as defined under the Money Lending Act) with the KLFB in December 2018, and are currently subject to certain strict regulations that govern money lending operations. We are supervised by the FSA, which has the authority to review our operations and inspect our records in order to monitor our compliance with the relevant regulations. The FSA is authorized to issue a business improvement order or a business suspension order, or cancel our registration if we fail to comply with the Money Lending Act.

The Money Lending Act requires registered Money Lenders to provide borrowers (and any guarantors) with a written notice of, or an electronic communication containing (subject to the borrowers’ prior consent), the following: (a) the terms and conditions of the loan at the time of, or promptly after, the execution of the loan agreement or any guarantee agreement; and (b) repayment amounts received and the application of those amounts to the principal and interest owed, as well as the customer’s remaining balance, at the time of each repayment. In addition, prior to issuing a loan, registered Money Lenders are required to evaluate, using information available from designated third-party information providers, the borrowers’ ability to repay the principal and interest amounts of the loans. Lending by registered Money Lenders is generally prohibited if an individual borrower’s aggregate amount of outstanding loans from all registered Money Lenders after the extension of an additional loan will exceed one-third of such borrower’s annual income.

### ***Regulations on Financial Instruments Intermediary Businesses***

The FIEA governs, and the FSA regulates, the financial instruments intermediary business, such as LINE Smart Invest, our investment management-related service that allows our users to engage in investment services offered by FOLIO, an online investment management company. Such business is conducted solely under entrustment by FOLIO, which is licensed as a financial instruments business operator, and our activities are performed on behalf of FOLIO. Our scope of business is limited to intermediary services and does not extend to brokerage or agency services. In addition, with regard to our financial instruments intermediary service, we are prohibited from receiving deposits of money or securities from customers. The FSA is authorized to require us to file certain reports, and may issue a business improvement order or business suspension order, or cancel our registration if we fail to comply with the relevant regulations.

### ***Regulations on Solicitation Regarding Insurance Policies***

Under the Insurance Business Act of Japan (the “Insurance Act”), non-life insurance solicitors, including sales representatives, must be registered with the director of the relevant local finance bureau of the Ministry of Finance. In order to operate LINE Insurance, our non-life insurance service based on an alliance between LINE Financial and Sompo Japan, LINE Financial has registered with the Director of the KLFB. The Insurance Act prohibits certain solicitation activities or omissions, such as the provision of false notice or non-disclosure of important matters, and we are required to (i) ascertain the customer’s needs and propose insurance products that are in line with such customer’s needs and (ii) provide customers with information on insurance products and other necessary information during the process of insurance solicitation. The Director of the KLFB is authorized to issue a business improvement order or a business suspension order, or cancel our registration if we fail to comply with such regulations.

#### Item 4.C. *Organizational Structure*

The following table sets out the jurisdiction of incorporation and our ownership interests of our significant subsidiaries as of December 31, 2018:

<u>Name</u>	<u>Jurisdiction of Incorporation</u>	<u>Percentage of Ownership</u>
FIVE Inc. . . . .	Japan	100.0%
Gatebox Inc. . . . .	Japan	51.0%
LINE Digital Frontier Corporation . . . . .	Japan	70.0%
LINE Financial Corporation . . . . .	Japan	100.0%
LINE Fukuoka Corp. . . . .	Japan	100.0%
LINE GAME Global Gateway, L.P. . . . .	Japan	100.0%
LINE Part-Time Job, Ltd. . . . .	Japan	60.0%
LINE Pay Corporation . . . . .	Japan	100.0%
LINE Ventures Global Limited Liability Partnership . . . . .	Japan	100.0%
LINE Ventures Japan Limited Liability Partnership . . . . .	Japan	100.0%
LVC Corporation . . . . .	Japan	100.0%
M.T.Burn Inc. . . . .	Japan	50.5%
LFG HOLDINGS LIMITED . . . . .	Hong Kong	100.0%
LINE Financial Asia Corporation Limited . . . . .	Hong Kong	100.0%
LINE Biz Plus Corporation . . . . .	Korea	100.0%
LINE C&I Corporation . . . . .	Korea	100.0%
LINE Friends Corporation . . . . .	Korea	100.0%
LINE Plus Corporation . . . . .	Korea	100.0%
NemusTech Co., Ltd. . . . .	Korea	94.2%
Unblock Corporation . . . . .	Korea	100.0%
LINE SOUTHEAST ASIA CORP. PTE. LTD. . . . .	Singapore	100.0%
Line Biz+ Taiwan Limited . . . . .	Taiwan	70.0%
LINE Taiwan Limited . . . . .	Taiwan	100.0%
LINE Company (Thailand) Limited . . . . .	Thailand	50.0%
LINE VIETNAM JOINT STOCK COMPANY . . . . .	Vietnam	98.8%

For further details on our subsidiaries, see Note 30 of the notes to our annual consolidated financial statements.

#### Item 4.D. *Property, Plants and Equipment*

As of December 31, 2018, we had ¥24,726 million of property and equipment, which primarily consisted of our servers and networking equipment, and leased office facilities in Japan and other countries, including approximately 19,799 square meters for our corporate headquarters in Tokyo, Japan. In April 2017, we relocated our head offices to a new location in Shinjuku, Tokyo, pursuant to a lease agreement.

#### Item 4A. *Unresolved Staff Comments*

We do not have any unresolved comments from the SEC staff regarding our periodic reports under the Exchange Act.



## **Item 5. *Operating and Financial Review and Prospects***

### **Item 5.A. *Operating Results***

#### **Overview**

We are a leading global platform for mobile messaging and communication services, content distribution and life and financial services. Our mobile messaging application, which is the foundation of our “messaging services” and operates on all major mobile operating systems, enables our users to communicate through free instant messaging, Stickers and voice and video calls and serves as a smart portal to our other applications and services. We provide users with access to a wide range of social and creative content and services that satisfy our users’ individual needs for access to information and entertainment such as mobile games and music through our “content services,” as well as connected solutions that aim to satisfy increasingly sophisticated day-to-day needs of LINE users and further enhance their life and financial welfare, including fintech services such as mobile payment and other financial services offered on the LINE platform, through our “life and financial services.” We believe that the integration on our LINE platform of content and services offers our users a convenient way to connect and have fun with their family and friends, explore and share their interests and satisfy their daily needs with greater ease, which we believe enriches the user experience and ultimately contributes to higher user loyalty, while creating value for advertisers by connecting them with their target audience using the LINE platform.

We believe LINE is the leading mobile messaging application in Japan, Thailand and Taiwan in terms of number of users, and we have obtained substantial numbers of users in other parts of Asia, including Indonesia. We have achieved this growth through active marketing of LINE as well as customizing our content offerings to suit local preferences and needs. We believe the scale and growth of our user base in many countries provide us with powerful network effects, whereby LINE becomes more valuable with more users and creates additional incentives for existing users to encourage new users to join and to stay connected to their circle of friends. We benefit from such network effects where more activity on LINE leads to the creation and distribution of more content, which in turn attracts more users, platform partners and advertisers. We will continue to invest in new products and services and enhancements to our existing products and services, with the goal of further expanding our user base and increasing user engagement.

We generate revenue in a variety of ways and from various participants active on our global platform. Our revenues are primarily generated from our advertising products and services, LINE Games and Stickers. While our revenue growth prior to 2016 has been led primarily by LINE Games and Stickers, our revenue growth in 2016, 2017 and 2018 was primarily driven by our advertising products and services, particularly the growth of our “display ads.” We generated revenues of ¥140,704 million in 2016, ¥167,147 million in 2017 and ¥207,182 million in 2018, representing revenue growth of 18.8% from 2016 to 2017 and 24.0% from 2017 to 2018.

Prior to and during our fiscal year ended December 31, 2017, we had a single reportable segment. On January 31, 2018, our board of directors approved the establishment of two reportable segments, consisting of our “core business” segment and our “strategic business” segment, in response to the expansion of our business and evolution of our business strategy.

Our reportable segments currently consist of:

- Our “core business” segment that includes:
  - “Advertising” consisting of (i) “display advertising” that utilizes our various communication and content offerings, such as Timeline, LINE NEWS and LINE TODAY, (ii) “account advertising” products and services such as Official Accounts, LINE@, Sponsored Stickers and LINE Point Ads and (iii) “other advertising” products and services such as LINE Part-time Job, livedoor and Matome; and

- “Communication, content and others” consisting of (i) “communication” products and services such as Stickers and Themes created by third parties and sold on LINE Creators Market as well as Stickers and Themes created by us, (ii) “content” products and services such as LINE Games, LINE PLAY, LINE Manga, LINE Music and LINE Fortune, and (iii) “others” consisting of miscellaneous products and services.
- Our “strategic business” segment that includes:
  - “LINE Friends” products and services mainly consisting of sales of LINE characters merchandise; and
  - “Others” primarily consisting of fintech businesses (including LINE Pay and other financial services delivered through the LINE platform), the LINE Clova AI platform, blockchain-related initiatives and e-commerce. This segment also included LINE Mobile until April 2018, when LINE MOBILE, the provider of MVNO services, started to be accounted for as an associate under the equity method rather than as a consolidated subsidiary.

### Factors Affecting Our Financial Condition and Results of Operations

Our financial condition and results of operations have been and will continue to be materially affected by a number of factors and developments, some of which are outside of our control, including the following:

- user growth;
- user engagement;
- monetization;
- products and services innovation;
- marketing and brand promotion;
- competition;
- investment in talent; and
- seasonal fluctuations.

#### *User Growth*

MAUs are a measure of the size of our active user base. We define MAUs in a given month as the number of user accounts that (i) accessed the LINE messaging application or any LINE Game through mobile devices; (ii) sent messages through the LINE messaging application from personal computers; or (iii) sent messages through any other LINE application from mobile devices, in each case at least once during that month. MAUs for the months indicated were as follows:

	For the month of											
	Mar. 2016	Jun. 2016	Sep. 2016	Dec. 2016	Mar. 2017	Jun. 2017	Sep. 2017	Dec. 2017	Mar. 2018	Jun. 2018	Sep. 2018	Dec. 2018
	(in millions)											
Japan . . . . .	61	62	64	66	68	70	71	73	75	76	78	79
Thailand . . . . .	39	39	40	41	42	41	42	42	42	43	44	44
Taiwan . . . . .	19	19	19	20	20	20	20	20	21	21	21	21
Indonesia . . . . .	33	37	39	40	41	38	35	32	27	24	22	20

Changes in MAUs affect our revenues and financial performance by influencing the volume of transactions on LINE, the number of advertisers we are able to attract and the rates we can charge such advertisers, as well as our expenses. From our inception, we experienced our largest user growth in Japan, Thailand, Taiwan and Indonesia. For example, our aggregate MAUs in Japan, Thailand and Taiwan were 127 million in December 2016, 135 million in December 2017 and 144 million in December 2018. Despite such growth, the growth rate of our users in such markets has declined over time as we achieved higher penetration rates in those markets. In Indonesia, we have experienced a decrease in the number of our MAUs starting in the second quarter of 2017 primarily due to intensified competition in that market, and our MAUs in Indonesia were 40 million in December 2016, 32 million in December 2017 and 20 million in December 2018. We strive to retain active users as well as pursue MAU growth in our key markets. For example, we try to incentivize additional users to exchange messages and add more friends through promotional events, as well as broaden the ways users can interact with their friends on our games and other content applications.

### *User Engagement*

Changes in user engagement also affect our revenues and financial performance. Growth in user engagement enhances our ability to deliver relevant content to users and increase the opportunities for us to generate revenues. Growth in user engagement also generally results in increases in our expenses and capital expenditures required to support user activity. Our average DAUs represented approximately 77% of our MAUs in our four largest markets of Japan, Taiwan, Thailand and Indonesia in December 2018. Our average DAUs represented approximately 85% of our MAUs in Japan alone, our largest market, in December 2018.

We measure user engagement of communication products and services using various metrics, including daily average number of messages sent and received and daily average number of Stickers sent. While sending and receiving messages is free, when sending messages, our users often include in their messages purchased Stickers, which is our primary revenue source within our communication products offerings. In addition, these metrics affect the attractiveness of our LINE advertising products and services as a medium for advertisers, which in turn impacts our advertising revenue. These metrics have decreased in recent years due to a general decline in our global MAUs. Such metrics for the months indicated were as follows:

	For the month of											
	Mar. 2016	Jun. 2016	Sep. 2016	Dec. 2016	Mar. 2017	Jun. 2017	Sep. 2017	Dec. 2017	Mar. 2018	Jun. 2018	Sep. 2018	Dec. 2018
	(in millions)											
Daily average number of messages sent . . .	4,211	4,347	4,404	4,382	4,602	4,609	4,500	4,157	4,214	4,220	4,136	4,004
Daily average number of messages received . . . . .	16,186	17,866	19,998	20,682	22,894	24,597	24,588	23,464	23,163	23,899	23,414	22,624
Daily average number of Stickers sent . . . . .	389	397	384	407	441	433	413	381	403	411	389	374

We measure user engagement of LINE Games primarily using MAUs of LINE Games. While downloading LINE Games is free, our active users often purchase in-game items to enhance their game experience, which is a key revenue source for us. MAUs of LINE Games may fluctuate depending on the level of popularity of our game titles at any given time, although MAUs of LINE Games have generally declined in recent years in line with a decline in global MAUs. The MAUs of LINE Games for the months indicated were as follows:

	For the month of											
	Mar. 2016	Jun. 2016	Sep. 2016	Dec. 2016	Mar. 2017	Jun. 2017	Sep. 2017	Dec. 2017	Mar. 2018	Jun. 2018	Sep. 2018	Dec. 2018
	(in millions)											
MAUs of LINE Games <sup>(1)</sup> . . . . .	31	29	27	27	26	23	22	20	19	16	19	18

(1) Represents the number of user accounts that accessed any LINE Game through mobile devices at least once during the month indicated.

**Monetization**

Our ability to monetize the increase in our user base and our users’ engagement with LINE is critical to our financial performance. We currently generate a substantial portion of our revenues from our advertising products and services as well as LINE Games and Stickers. Our approach in each market is to build a large user base through our LINE messaging application, promote user engagement and introduce and enhance entertainment and other content and services, all of which lead to greater monetization opportunities and enhanced media value for our advertising business. We plan to continue to invest in product development, including localization of existing products and services for new markets, and explore ways to pursue additional monetization opportunities.

MPUs are a measure of the number of our paying users, which we review to measure our ability to monetize our user base. We define MPUs in a given month as the number of user accounts that made (i) a payment for Stickers, Themes or LINE Out on the LINE messaging application through mobile devices or personal computers or (ii) a payment relating to any LINE Game through mobile devices, in each case at least once during that month.

We review MPUs, including MPUs of LINE Games, as a measure to evaluate trends in monetization. MPUs, including MPUs of LINE Games, may fluctuate depending on the level of success of our monetization efforts utilizing the line-up of our products and services. The following table sets forth the number of our total MPUs and MPUs of LINE Games for the months indicated:

	For the month of											
	Mar. 2016	Jun. 2016	Sep. 2016	Dec. 2016	Mar. 2017	Jun. 2017	Sep. 2017	Dec. 2017	Mar. 2018	Jun. 2018	Sep. 2018	Dec. 2018
	(in millions)											
Total MPUs <sup>(1)</sup> . . . . .	8.4	8.1	7.8	9.4	8.5	8.4	8.1	9.5	8.6	7.9	7.8	9.6
MPUs of LINE Games <sup>(2)</sup> . . . . .	1.6	1.4	1.4	1.3	1.4	1.3	1.2	1.1	1.1	1.0	1.2	1.1

- (1) Represents the number of user accounts that made (i) a payment for Stickers, Themes or LINE Out on the LINE messaging application through mobile devices or personal computers or (ii) a payment relating to any LINE Game through mobile devices, in each case at least once during the month indicated.
- (2) Represents the number of user accounts that made a payment relating to any LINE Game through mobile devices at least once during the month indicated.

We also review various performance indexes, including number of Official Accounts for account ads, impressions for display ads and page views for our portal ads, to evaluate trends in monetization through our advertising services and products. Impressions are viewings of display ads by users while they access our products and services for which we typically generate revenues. Because our display ads are sold through either a bid-based CPM or CPC pricing model in which the advertiser pays for qualifying impressions or click-through volume, the number of paid impressions displayed is an indicator of our ability to monetize our users’ viewing of advertisements on the LINE platform. The following table sets forth the number of total impressions on the LINE platform for the quarterly periods indicated:

	For the three months of							
	Jan.-Mar. 2017	Apr.-Jun. 2017	Jul.-Sep. 2017	Oct.-Dec. 2017	Jan.-Mar. 2018	Apr.-Jun. 2018	Jul.-Sep. 2018	Oct.-Dec. 2018
	(in millions)							
Total impressions . . . . .	12,275	14,668	15,940	15,985	17,671	21,167	23,265	23,568

In recent years, an increasing portion of our revenues has been generated through such monetization. A breakdown of our advertising revenues by major category for the years ended December 31, 2016, 2017 and

2018, with the figures for the years ended December 31, 2016 and 2017 restated to reflect the bifurcation of our reportable segments (see “— Overview”), is as follows:

	For the Year Ended December 31,					
	2016		2017		2018	
	Amount	%	Amount	%	Amount	%
	(in millions of yen, except percentages)					
Advertising:						
LINE advertising						
Display advertising <sup>(1)</sup> . . . . .	¥10,448	19.1%	¥26,609	35.0%	¥ 36,221	33.5%
Account advertising <sup>(2)</sup> . . . . .	33,986	62.2	38,929	51.3	56,714	52.4
Sub-total . . . . .	44,434	81.4	65,538	86.3	92,935	85.9
Other advertising <sup>(3)</sup> . . . . .	10,186	18.6	10,433	13.7	15,302	14.1
Total . . . . .	¥54,620	100.0%	¥75,971	100.0%	¥108,237	100.0%

(1) Primarily consists of revenues from display ads posted on Timeline, LINE NEWS, LINE TODAY and other content offerings on the LINE platform, including LINE Manga and LINE BLOG.

(2) Primarily consists of revenues from Official Accounts, LINE@, Sponsored Stickers and LINE Point Ads.

(3) Primarily consists of revenues from advertising services offered on LINE Part-time Job, livedoor and Matome. The operations of LINE Part-time Job were consolidated starting in April 2018.

We intend to invest in our global operations in order to increase monetization outside of Japan, especially in our three other key countries of Taiwan, Thailand and Indonesia. We generated 71.7%, 72.6% and 71.6% of our revenues in Japan in 2016, 2017 and 2018, respectively, and we expect to continue to derive a significant portion of our revenues from Japan in the near future. Certain global markets are not as familiar with new forms of digital advertising, such as our Official Accounts, Sponsored Stickers, LINE Point Ads and display ads posted on Timeline. In such markets, we are investing in marketing efforts to help our users and advertisers understand and take advantage of the benefits of products and services offered on the LINE platform.

For a discussion of the impact of the adoption of IFRS 15 on revenue recognition for our advertising products and services, see “Item 5.B. Liquidity and Capital Resources — Critical Accounting Judgments, Estimates and Assumptions — Revenue Recognition — Revenue Recognition for Stickers, Sponsored Stickers, LINE Point Ads and Advertising Services” and Note 3(30) of the notes to our annual consolidated financial statements.

### ***Products and Services Innovation***

Our ability to increase the size of our user base and engagement of our users, attract platform partners and advertisers and generate revenues will depend in part on our ability to create successful new products and services, both independently and in conjunction with third parties. We plan to continue to make significant investments in product development and, from time to time, we may acquire companies to further enhance our products, services and technical capabilities.

In 2018, we launched various new products and services to further enhance the LINE platform, in particular in fintech-related businesses. In order to diversify the payment options available to our LINE Pay users, we have made significant investments in promoting our LINE Pay mobile payment services by enhancing our payment infrastructure that provides settlement through QR and other barcodes, NFC and LINE Pay Cards. In July 2018, we launched BITBOX, a cryptocurrency exchange established in Singapore to facilitate the exchange of cryptocurrencies. In November 2018, we launched LINE Kakeibo, a free personal financial account and asset management service that allows our users to manage their income and expenses more efficiently by consolidating a user’s bank accounts, credit cards, reward programs and e-commerce services into a central database. We are also continuing to expend significant time and resources in enhancing our capabilities in AI.

For example, in June 2018, we launched Clova Friends mini, which is a miniature yet enhanced version of Clova Friends, and in July 2018, we released the Clova Extensions Kit, a development kit that allows third-party developers to scale LINE Clova functionalities. We also launched various initiatives utilizing blockchain technology in 2018, including LINK, the base digital token to be used to access a number of dApps to be offered in our blockchain ecosystem, which we launched in August 2018. See “Item 4.B. Business Overview — Our Products and Services.” We plan to continue to pursue collaboration opportunities with third parties to develop additional content services as well as life and financial services to be offered on the LINE platform that are designed to further enrich our users’ daily lives.

Our operating results have been, and will continue to be, affected by our ability to stimulate customer demand for new and upgraded products and to anticipate and respond to emerging customer preferences and demands by ensuring continuing and timely development of new products and services, as well as enhancements to existing products and services. New services will incur additional operating expenses with uncertainty on timing and level of monetization.

### ***Marketing and Brand Promotion***

As we continue to increase our footprint, we engage in active marketing campaigns to promote new products and services, build our brand and expand our user base. We utilize television commercials and internet and mobile advertising as well as product placements in television shows as our primary advertising channels, and we continually assess the effectiveness of such channels to ensure that we utilize the most suitable channel for each of the various types of products and services we aim to promote. Our marketing expenses, which consist primarily of costs related to advertising on mass media (primarily television advertising) and advertising on mobile applications, but excluding personnel-related costs of our marketing staff, were ¥11,833 million, ¥15,477 million and ¥20,311 million in 2016, 2017 and 2018, respectively. While we believe that our ability to grow through network effects will be fundamental to our growth, we expect to continue to invest significantly in marketing activities, including activities to further promote the growth we have experienced to date as we enter new markets and seek to expand our presence in existing markets. In 2019, we expect to increase our marketing expenses, in part due to promotion of our fintech-related products and services, including LINE Pay. Our quarterly marketing expense has fluctuated in the past and will fluctuate in the future.

### ***Competition***

We compete against many companies in different industries and markets to attract and engage users and for advertiser spending. We must compete effectively for users and advertisers in order to grow our business and increase our revenues. Scale benefits and other advantages may allow our competitors to respond more quickly and effectively than us to a rapidly evolving environment in the mobile internet industry, including industry consolidation that may result in increased competition. We will continue to invest in our products and services for users and advertisers and to grow our active user base in order to address the competitive challenges in our industry. As part of our strategy to improve our products and services, we may acquire other companies to add talent or complementary products and technologies.

### ***Investment in Talent***

We intend to continue to invest in hiring and retaining talented employees to grow our business and increase our revenues. We had 5,595 full-time employees as of December 31, 2018, compared to 4,344 as of December 31, 2017 and 3,085 as of December 31, 2016. We expect to increase our personnel for the foreseeable future as we continue to invest in the growth of our business, in particular fintech-related services as well as our LINE Clova AI platform and blockchain-related initiatives. We have also made and intend to continue to make acquisitions that increase the number of our engineers, designers, product managers and other personnel with specific technology expertise. In addition, we must retain our high-performing personnel in order to continue to develop, sell and market our products and services and manage our business.

We offer stock options as well as equity-settled and cash-settled employee stock ownership plans for our directors and employees. For a discussion of our share-based payments, see Note 27 of the notes to our annual consolidated financial statements and “Item 6.E. Share Ownership.” The stock options vest upon the satisfaction of service conditions. In connection with our share-based payments, we recorded expenses of ¥9,519 million, ¥2,686 million and ¥2,528 million in 2016, 2017 and 2018, respectively.

### ***Seasonal Fluctuations***

Our quarterly operating results may fluctuate significantly from period to period based on the seasonality of user spending for products and services offered on our LINE platform, such as Stickers for which various promotions may be offered either by us or by our advertisers in the year-end holiday season. In Japan, where a majority of companies end their fiscal year on March 31, advertising spending is traditionally stronger between September and March due to the year-end effects and companies in Japan trying to spend their advertising budgets before the close of their fiscal year. This seasonality in advertising has affected our quarterly results, with higher sequential advertising revenue growth from the third quarter to the fourth and then first quarter compared to slower growth or a decline in revenues and profits between the first quarter and the second quarter. For these reasons, a sequential quarter-to-quarter or year-to-year comparison is not necessarily a good indication of our performance or of how our business will perform in the future. As the percentage of our advertising revenues increases, such seasonal impact may become more pronounced in the future.

### **Recently Adopted Accounting Standards — The Impact of IFRS 15**

Starting on January 1, 2018, we have adopted IFRS 15, a new accounting standard issued by the IASB that establishes a five-step revenue recognition model that applies to all revenue generated from contracts with customers, regardless of the type of transaction or the industry, with limited exceptions. In addition to the five-step model, the standard specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. If those costs are expected to be recovered, they can be capitalized and subsequently amortized and tested for impairment. IFRS 15 also applies to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of an entity’s ordinary activities, such as sales of property, plant and equipment or intangibles.

We have adopted IFRS 15 by applying the modified retrospective method, which records the cumulative amount of the impact at the beginning balance of retained earnings upon adoption. Accordingly, the financial information related to periods prior to January 1, 2018 contained in our annual consolidated financial statements have not been restated for the adoption of IFRS 15 and continue to be presented under International Accounting Standard (“IAS”) 18 *Revenue* and other standards (collectively, “IAS 18 and Other Standards”).

The adjustments made to line items presented in our consolidated statements of comprehensive income for the year ended December 31, 2018 due to the change from IAS 18 and Other Standards applied previously to IFRS 15 are as follows:

	<b>For the year ended December 31, 2018</b>		
	<b>Under IAS 18 and Other Standards</b>	<b>Remeasurement</b>	<b>Under IFRS 15</b>
	(in millions of yen)		
Revenues and other operating income:			
Revenues . . . . .	¥ 197,789	¥ 9,393	¥ 207,182
Other operating income . . . . .	28,099	—	28,099
Total revenues and other operating income . . . . .	225,888	9,393	235,281
Operating expenses:			
Payment processing and licensing 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 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)
Total operating expenses . . . . .	(209,972)	(9,199)	(219,171)
Profit from operating activities . . . . .	15,916	194	16,110
Profit before tax from continuing operations . . . . .	3,160	194	3,354
Income tax expenses . . . . .	(9,463)	(59)	(9,522)
Loss for the year from continuing operations . . . . .	(6,303)	135	(6,168)
Loss for the year . . . . .	¥ (5,927)	¥ 135	¥ (5,792)

For a discussion of the adoption of IFRS 15 and the adjustments made to line items presented in our annual consolidated financial statements due to the change from IAS 18 and Other Standards applied previously to IFRS 15, including the impact on the line items in the consolidated statements of financial position, see “Item 5.B. Liquidity and Capital Resources — Critical Accounting Judgments, Estimates and Assumptions — Revenue Recognition” and Note 3(30) of the notes to our annual consolidated financial statements.



## Major Components of Our Results of Operations

### Revenues

A breakdown of our revenues by major category and changes therein for the years ended December 31, 2016, 2017 and 2018, based on the bifurcation of our reportable segments (see “— Overview”), with the figures for the years ended December 31, 2016 and 2017 restated to reflect such bifurcation, is as follows:

	For the year ended December 31,					
	2016		2017		2018	
	Amount	%	Amount	%	Amount	%
	(in millions of yen, except percentages)					
<b>Core business segment:</b>						
Advertising:						
Display advertising <sup>(1)</sup> . . . . .	¥ 10,448	7.4%	¥ 26,609	15.9%	¥ 36,221	17.5%
Account advertising <sup>(2)</sup> . . . . .	33,986	24.2	38,929	23.3	56,714	27.4
Other advertising <sup>(3)</sup> . . . . .	10,186	7.2	10,433	6.2	15,302	7.4
Sub-total . . . . .	54,620	38.8	75,971	45.4	108,237	52.2
Communication, content and others:						
Communication <sup>(4)</sup> . . . . .	¥ 29,290	20.8	¥ 30,225	18.1	¥ 28,527	13.8
Content <sup>(5)</sup> . . . . .	44,784	31.8	40,144	24.0	38,237	18.5
Others . . . . .	1,711	1.2	2,816	1.7	3,397	1.6
Sub-total . . . . .	75,785	53.9	73,185	43.8	70,161	33.9
Total core business segment . . . . .	130,405	92.7	149,156	89.2	178,398	86.1
<b>Strategic business segment:</b>						
LINE Friends <sup>(6)</sup> . . . . .	9,383	6.7	12,299	7.4	19,579	9.5
Others <sup>(7)</sup> . . . . .	916	0.7	5,692	3.4	9,205	4.4
Total strategic business segment . . . . .	10,299	7.3	17,991	10.8	28,784	13.9
<b>Total</b> . . . . .	<u>¥140,704</u>	<u>100.0%</u>	<u>¥167,147</u>	<u>100.0%</u>	<u>¥207,182</u>	<u>100.0%</u>

- (1) Primarily consists of revenues from display ads posted on Timeline, LINE NEWS and LINE TODAY.
- (2) Primarily consists of revenues from Official Accounts, LINE@, Sponsored Stickers and LINE Point Ads.
- (3) Primarily consists of revenues from LINE Part-time Job, livedoor and Matome. The operations of LINE Part-time Job were consolidated starting in April 2018.
- (4) Primarily consists of sales of Stickers and Themes created by third parties and sold on LINE Creators Market as well as Stickers and Themes created by us.
- (5) Primarily consists of sales of virtual items of LINE Games, LINE PLAY, LINE Manga, LINE Music and LINE Fortune.
- (6) Primarily consists of revenues from sales of LINE characters merchandise at our retail stores.
- (7) Primarily consisting of fintech businesses (including LINE Pay and other financial services delivered through the LINE platform), the LINE Clova AI platform, blockchain-related initiatives and e-commerce. This segment also included LINE Mobile until April 2018, when LINE MOBILE, the provider of MVNO services, started to be accounted for as an associate under the equity method rather than as a consolidated subsidiary.

For a discussion of how we recognize revenues for different services, see Note 3(22) of the notes to our annual consolidated financial statements.

### Operating Expenses

The following are the principal components of our operating expenses:

- **Payment processing and licensing expenses.** Payment processing and licensing expenses consist primarily of (i) processing fees paid to Apple and Google, our payment processing service

providers, incurred from the sale of virtual items for internally-developed games and Stickers, and (ii) licensing fees paid to owners of third-party content used in Stickers and other products and services on a revenue-sharing basis.

- **Sales commission expenses.** Sales commission expenses are primarily fees paid to advertising agencies that provide services related to the creation and delivery of advertising products offered on the LINE platform. Prior to our adoption of IFRS 15 starting on January 1, 2018, such expenses were included under “authentication and other service expenses” because such amounts were considered immaterial. In accordance with IFRS 15, however, we now recognize revenue on a gross basis prior to separating out the portion to be paid to advertising agencies, which increased our advertising revenue as well as expenses to be paid to such advertising agencies (see “Item 5.B. Liquidity and Capital Resources — Critical Accounting Judgments, Estimates and Assumptions — Revenue Recognition — Revenue Recognition for Stickers, Sponsored Stickers, LINE Point Ads and Advertising Services”). Given such increase, sales commission expenses are now recorded separately, with the remaining “authentication and other services expenses” re-categorized as “outsourcing and other service expenses” (see “— Outsourcing and other service expenses” below).
- **Employee compensation expenses.** Employee compensation expenses are our personnel-related costs, including salaries, benefits and share-based compensation.
- **Marketing expenses.** Our marketing expenses consist primarily of costs related to (i) advertising on mass media, primarily television advertising, (ii) advertising on mobile applications and (iii) brand promotional events. Our marketing expenses do not include compensation expenses of our marketing personnel, which are included in employee compensation expenses.
- **Infrastructure and communication expenses.** Infrastructure and communication expenses consist primarily of co-location charges incurred by us that are required for operation of the LINE platform and data centers, including fees for data transmission, data center infrastructure fees for maintenance of a suitable operating environment, server rental fees and server connection fees.
- **Outsourcing and other service expenses.** Previously known as “authentication and other service expenses” prior to our adoption of IFRS 15 starting on January 1, 2018, outsourcing and other service expenses primarily relate to (i) fees paid for services outsourced to third parties related to the development of various products and services offered by us, (ii) fees paid to various entities related to content production and (iii) fees paid for server maintenance activities.
- **Depreciation and amortization expenses.** Depreciation and amortization expenses primarily relate to depreciation of property and equipment, which is computed using the straight-line method based on the depreciable amount of the assets over their respective useful lives.
- **Other operating expenses.** Other operating expenses primarily relate to rent, cost of goods sold relating to the sale of our products, provisions for the redemption of LINE Points, travel, supplies, professional fees, taxes and dues, training and other miscellaneous operating expenses.

We plan to continue increasing the capacity and enhancing the capability and reliability of our infrastructure to support user growth and increased activity on our LINE platform. We also plan to continue to invest in marketing activities to increase brand awareness, promote launching of new services and expand our user base and advertiser base. Some of our operating expenses, such as employee compensation expenses, are relatively fixed, and other expenses, such as marketing expenses, may not directly correspond to revenues in the same period. We expect that our operating expenses will increase for the foreseeable future and may vary in the near term from period to period as a percentage of revenues.

### ***Finance Income and Finance Costs***

Our finance income primarily consists of interest income, and our finance costs primarily consist of interest expense.

### ***Share of Profit (Loss) of Associates and Joint Ventures***

Our share of profit (loss) of associates and joint ventures consists of our share of the profits or losses of our investees in which we have significant influence. We account for our investments in such entities using the equity method, under which our share of the profits or losses is determined based on our proportionate ownership interest.

### ***Income Tax Expenses***

Our income tax expenses mainly consist of current income taxes in Japan and Korea, and deferred income taxes and changes in the related assessment of the recoverability of deferred tax assets reflecting the net tax effects of temporary differences between the carrying amounts of assets and liabilities in each of these jurisdictions for financial reporting purposes and the amounts used for income tax purposes. The statutory tax rate applicable to corporations in Japan in 2018 was 31.7%. Under current Korean tax regulations, the statutory tax rate applicable to us in Korea in 2018 was approximately 22.0%. Deferred tax assets and liabilities are measured using the tax rates that are expected to apply to the period when the assets are realized or the liabilities are settled.

### ***Profit (Loss) from Discontinued Operations, Net of Tax***

On February 12, 2016, after careful assessment of the overall performance of MixRadio, the financial challenges posed by the music streaming market, changing market conditions, an increase in the cost of maintaining the business and a shift in our overall priorities, our board of directors approved the liquidation of our MixRadio operations, which liquidation became effective on March 21, 2016. As a result, we have retrospectively classified the MixRadio business as a discontinued operation in our consolidated financial statements as of and for the year ended December 31, 2015 and recognized impairment charges of ¥4.6 billion in the fourth quarter of 2015. We also incurred additional restructuring costs of ¥1,165 million for employee termination benefits and ¥126 million for the termination of office lease contracts in 2016 as a result of the liquidation of the MixRadio operations. In 2018, we recognized a ¥566 million gain from discharge of debt in connection with the liquidation of the MixRadio operations. For more information, see Note 23 of the notes to our annual consolidated financial statements.

## Results of Operations

The following table presents our selected statements of profit or loss data for the periods indicated.

	For the year ended December 31,		
	2016	2017	2018
	(in millions of yen)		
Revenues and other operating income:			
Revenues <sup>(1)</sup> . . . . .	¥ 140,704	¥ 167,147	¥ 207,182
Other operating income . . . . .	5,892	12,011	28,099
Total revenues and other operating income . . . . .	146,596	179,158	235,281
Operating expenses:			
Payment processing and licensing expenses . . . . .	(29,781)	(29,589)	(30,823)
Sales commission expenses <sup>(2)</sup> . . . . .	(615)	(899)	(15,960)
Employee compensation expenses . . . . .	(39,445)	(42,469)	(57,493)
Marketing expenses . . . . .	(11,833)	(15,477)	(20,311)
Infrastructure and communication expenses . . . . .	(7,770)	(9,087)	(10,483)
Outsourcing and other service expenses <sup>(2)</sup> . . . . .	(13,779)	(24,007)	(31,825)
Depreciation and amortization expenses . . . . .	(5,100)	(7,149)	(11,135)
Other operating expenses . . . . .	(18,376)	(25,403)	(41,141)
Total operating expenses . . . . .	(126,699)	(154,080)	(219,171)
Profit from operating activities . . . . .	19,897	25,078	16,110
Finance income . . . . .	87	257	413
Finance costs . . . . .	(65)	(26)	(519)
Share of loss of associates and joint ventures . . . . .	(833)	(6,321)	(11,148)
Loss on foreign currency transactions, net . . . . .	(43)	(818)	(902)
Other non-operating income . . . . .	9	1,963	869
Other non-operating expenses . . . . .	(1,062)	(1,988)	(1,469)
Profit before tax from continuing operations . . . . .	17,990	18,145	3,354
Income tax expenses . . . . .	(8,904)	(9,922)	(9,522)
Profit (loss) for the period from continuing operations . . . . .	9,086	8,223	(6,168)
Profit (loss) from discontinued operations, net of tax . . . . .	(1,982)	(13)	376
Profit (loss) for the period . . . . .	¥ 7,104	¥ 8,210	¥ (5,792)

(1) For a discussion of the impact of our adoption of IFRS 15 on revenue recognition, see “Item 5.B. Liquidity and Capital Resources — Critical Accounting Judgments, Estimates and Assumptions — Revenue Recognition” and Note 3(30) of the notes to our annual consolidated financial statements.

(2) Due to our adoption of IFRS 15 starting on January 1, 2018, “sales commission expenses,” which were part of “authentication and other service expenses” prior to January 1, 2018, are now presented separately as a new line item, with the remainder of “authentication and other service expenses” re-categorized as “outsourcing and other service expenses,” starting with the year ended December 31, 2018. Such change has been applied to the figures for the years ended December 31, 2016 and 2017. For more information on the impact of our adoption of IFRS 15, see “— Recently Adopted Accounting Standards — The Impact of IFRS 15” and Note 3(30) of the notes to our annual consolidated financial statements.

## Comparison of the Years Ended December 31, 2017 and 2018

The results of operations for the year ended December 31, 2017 have been restated based on the bifurcation of our reportable segments in 2018 (see “— Overview”).

## Revenues

The following table presents a breakdown of our revenues by major services and changes therein for the periods indicated.

	For the year ended December 31,		Changes	
	2017	2018	Amount	%
(in millions of yen or percentages)				
<b>Core business segment:</b>				
Advertising:				
Display advertising	¥ 26,609	¥ 36,221	¥ 9,612	36.1%
Account advertising	38,929	56,714	17,785	45.7
Other advertising	10,433	15,302	4,869	46.7
Sub-total	75,971	108,237	32,266	42.5
Communication, content and others:				
Communication	30,225	28,527	(1,698)	(5.6)
Content	40,144	38,237	(1,907)	(4.8)
Others	2,816	3,397	581	20.6
Sub-total	73,185	70,161	(3,024)	(4.1)
Total core business segment	149,156	178,398	29,242	19.6
<b>Strategic business segment:</b>				
LINE Friends	12,299	19,579	7,280	59.2
Others	5,692	9,205	3,513	61.7
Total strategic business segment	17,991	28,784	10,793	60.0
<b>Total</b>	<b>¥167,147</b>	<b>¥207,182</b>	<b>¥ 40,035</b>	<b>24.0%</b>

Our revenues increased by 24.0%, or ¥40,035 million, from ¥167,147 million in 2017 to ¥207,182 million in 2018 primarily due to increases in revenues of our core business segment and, to a lesser extent, our strategic business segment. Our revenues were also positively impacted by our adoption of IFRS 15 starting on January 1, 2018. See “— Recently Adopted Accounting Standards — The Impact of IFRS 15” and Note 3(30) of the notes to our annual consolidated financial statements. In 2018, our revenues were ¥207,182 million under IFRS 15, compared to ¥197,789 million under IAS 18 and Other Standards. Had we continued to apply the previous method of IAS 18 and Other Standards in 2018, our revenues would have increased only by 18.3%, or ¥30,642 million, from ¥167,147 million in 2017 to ¥197,789 million in 2018.

Our MPUs increased slightly from 9.5 million in December 2017 to 9.6 million in December 2018. Our aggregate MAUs in our four key countries of Japan, Thailand, Taiwan and Indonesia decreased from 167 million to 164 million during the same period, as the decrease in MAUs in Indonesia more than offset the increase in MAUs in Japan. Revenues from Japan accounted for 72.6% and 71.6% of our total revenues in 2017 and 2018, respectively. Revenues from Taiwan accounted for 9.9% and 9.0% of our total revenues in 2017 and 2018, respectively. Our revenues from Korea increased from 5.3% of our total revenues in 2017 to 6.4% of our total revenues in 2018, primarily due to an increase in sales of LINE Friends merchandise at LINE Friends stores in Korea.

### Core Business Segment

The following table presents a breakdown of our core business segment revenues by major services and changes therein for the periods indicated.

	For the year ended December 31,		Changes	
	2017	2018	Amount	%
(in millions of yen or percentages)				
<b>Advertising:</b>				
Display advertising	¥ 26,609	¥ 36,221	¥ 9,612	36.1%
Percentage of revenues	15.9%	17.5%		
Account advertising	¥ 38,929	¥ 56,714	¥17,785	45.7%
Percentage of revenues	23.3%	27.4%		
Other advertising	¥ 10,433	¥ 15,302	¥ 4,869	46.7%
Percentage of revenues	6.2%	7.4%		
<b>Communication, content and others:</b>				
Communication	¥ 30,225	¥ 28,527	¥(1,698)	(5.6)%
Percentage of revenues	18.1%	13.8%		
Content	¥ 40,144	¥ 38,237	¥(1,907)	(4.8)%
Percentage of revenues	24.0%	18.5%		
Others	¥ 2,816	¥ 3,397	¥ 581	20.6%
Percentage of revenues	1.7%	1.6%		
<b>Total core business segment</b>	<b>¥149,156</b>	<b>¥178,398</b>	<b>¥29,242</b>	<b>19.6%</b>
Percentage of revenues	89.2%	86.1%		

Revenues of our core business segment increased by 19.6%, or ¥29,242 million, from ¥149,156 million in 2017 to ¥178,398 million in 2018, primarily due to increases in revenues from account advertising, display advertising and other advertising, which were offset in part by decreases in revenues from content and communication. Revenues of our core business segment, in particular revenues from advertising, were also positively impacted by our adoption of IFRS 15 in 2018. For example, the changes in revenue recognition methods we adopted through the modified retrospective method starting in 2018 resulted in an increase in the amount of revenues from our core business segment in 2018 by ¥9,393 million, with most of such amount attributable to revenues from advertising.

**Account advertising.** Revenues from account advertising increased by 45.7%, or ¥17,785 million, from ¥38,929 million in 2017 to ¥56,714 million in 2018, primarily due to increases in revenues from Official Accounts and LINE@, which were offset in part by a decrease in revenues from LINE Point Ads. Revenues from Official Accounts increased primarily due to an increase in the number of paid contracts from 645 as of December 31, 2017 to 774 as of December 31, 2018. Revenues from LINE@ increased primarily due to an increase in new advertisers through sign-up incentives and marketing initiatives. On the other hand, revenues from LINE Point Ads decreased, reflecting a decrease in utilization of LINE Points by our advertisers. Revenues from our account advertising were also positively impacted by our adoption of IFRS 15 starting on January 1, 2018 using the modified retrospective method as described above.

**Display advertising.** Revenues from display advertising increased by 36.1%, or ¥9,612 million, from ¥26,609 million in 2017 to ¥36,221 million in 2018, primarily due to increases in revenues from display ads posted on LINE NEWS (as well as LINE TODAY available in select countries outside of Japan) and Timeline. The increase in revenues from display advertising was attributable to the growth in the user base of our LINE NEWS and LINE TODAY services, which resulted in an increase in the number of total impressions, as well as an increase in the level of participation in the bidding processes by advertisers resulting from enhancements to our advertising products that made them more attractive to advertisers. For example, the introduction of LINE

NEWS in Japan and LINE TODAY in select countries outside of Japan as a dedicated tab in the LINE messaging application in 2017 contributed to an increase in popularity of such services in 2018, which in turn increased the revenues we generated from display ads posted on LINE NEWS and LINE TODAY. Revenues from display advertising were also positively impacted by our adoption of IFRS 15 starting on January 1, 2018 using the modified retrospective method as described above.

**Other advertising.** Revenues from other advertising increased by 46.7%, or ¥4,869 million, from ¥10,433 million in 2017 to ¥15,302 million in 2018, primarily due to consolidation of revenues of LINE Part-time Job starting in April 2018 following an increase in our interest in the joint venture with Persol Holdings Co., Ltd. from 49.0% to 60.0%.

**Content.** Revenues from content decreased by 4.8%, or ¥1,907 million, from ¥40,144 million in 2017 to ¥38,237 million in 2018, primarily due to a decrease in the sales volume of in-game items for LINE Games, which was offset in part by increases in revenues from LINE Manga, LINE Fortune and LINE Music. The decrease in the sales volume of in-game items was primarily driven by decreases in revenues from Disney TsumTsum and LINE Rangers. For internally-developed games, we recognize as revenues the gross amount of consideration paid by users which amplifies the impact of purchases of in-game items on our revenues compared to third-party developed games, for which we recognize as revenues the net proceeds after deducting amounts paid to third-party game developers and payment processing service providers. In addition, for a discussion of MAUs and MPUs of LINE Games, which decreased in 2018 compared to 2017, see “— Factors Affecting Our Financial Condition and Results of Operations.”

Partially offsetting the impact of decreases in revenues from LINE Games, we recorded increases in revenues from LINE Manga, LINE Fortune and LINE Music in 2018 compared to 2017, primarily reflecting increases in users and their engagement of such services.

**Communication.** Revenues from communication decreased by 5.6%, or ¥1,698 million, from ¥30,225 million in 2017 to ¥28,527 million in 2018, primarily due to a decrease in the volume of Stickers created and sold by us, which was offset in part by an increase in the volume of Stickers created by third parties and sold on LINE Creators Market.

#### *Strategic Business Segment*

The following table presents a breakdown of our strategic business segment revenues by major services and changes therein for the periods indicated.

	For the year ended December 31,		Changes	
	2017	2018	Amount	%
	(in millions of yen or percentages)			
<b>LINE Friends</b> .....	¥12,299	¥19,579	¥ 7,280	59.2%
Percentage of revenues .....	7.4%	9.5%		
<b>Others</b> .....	¥ 5,692	¥ 9,205	¥ 3,513	61.7%
Percentage of revenues .....	3.4%	4.4%		
<b>Total strategic business segment</b> .....	¥17,991	¥28,784	¥10,793	60.0%
Percentage of revenues .....	10.8%	13.9%		

Revenues of our strategic business segment increased by 60.0%, or ¥10,793 million, from ¥17,991 million in 2017 to ¥28,784 million in 2018, due to increases in revenues from the LINE Friends and Others categories.

**LINE Friends.** Revenues from LINE Friends increased by 59.2%, or ¥7,280 million, from ¥12,299 million in 2017 to ¥19,579 million in 2018, primarily due to increases in sales of official LINE

merchandise at our retail stores. The number of LINE Friends retail stores increased from 26 stores as of December 31, 2016 to 37 stores as of December 31, 2017 and 42 stores as of December 31, 2018.

**Others.** Revenues from the Others category increased by 61.7%, or ¥3,513 million, from ¥5,692 million in 2017 to ¥9,205 million in 2018, primarily due to increases in revenues from e-commerce related services, in particular LINE SHOPPING, and our sales of LINE Clova-integrated smart speakers, which were launched in October 2017.

### ***Other Operating Income***

Our other operating income increased by 133.9%, or ¥16,088 million, from ¥12,011 million in 2017 to ¥28,099 million in 2018, primarily due to the recognition of gains amounting to ¥15,300 million and ¥9,494 million relating to the loss of control of LINE Games Corporation and LINE MOBILE, respectively, resulting in both entities being accounted for as associates under the equity method rather than as consolidated entities in 2018. In November 2018, we conducted a capital increase through a third-party allotment of new shares issued by LINE Games Corporation to Lungo, as a result of which our interest in LINE Games Corporation decreased from 73.5% to 49.5%. In April 2018, LINE MOBILE issued new shares to SoftBank through a third-party allotment, pursuant to which our interest in LINE MOBILE decreased from 100.0% to 49.0%. The increase in our other operating income was, to a lesser extent, attributable to the recognition of a dilution gain of an aggregate of ¥2,310 million from the issuance of new shares by Snow Corporation, our associate accounted for under the equity method, to NAVER Corporation through a third-party allotment in March and October 2018, which in turn resulted in a decrease in our ownership in Snow Corporation from 45.0% to 34.0% as of December 31, 2018. Our other operating income recognized in 2017 primarily consisted of a ¥10,444 million gain on divestiture of business and subsidiaries relating to the transfer of our camera application business to Snow Corporation in May 2017.

### ***Operating Expenses***

#### *Total*

The following table presents a breakdown of our operating expenses and changes therein for the periods indicated.

	For the year ended December 31,		Changes	
	2017	2018	Amount	%
	(in millions of yen or percentages)			
Payment processing and licensing expenses . . . . .	¥ 29,589	¥ 30,823	¥ 1,234	4.2%
Sales commission expenses <sup>(1)</sup> . . . . .	899	15,960	15,061	1,675.3
Employee compensation expenses . . . . .	42,469	57,493	15,024	35.4
Marketing expenses . . . . .	15,477	20,311	4,834	31.2
Infrastructure and communication expenses . . . . .	9,087	10,483	1,396	15.4
Outsourcing and other service expenses <sup>(1)</sup> . . . . .	24,007	31,825	7,818	32.6
Depreciation and amortization expenses . . . . .	7,149	11,135	3,986	55.8
Other operating expenses <sup>(2)</sup> . . . . .	25,403	41,141	15,738	62.0
<b>Total</b> . . . . .	<b>¥154,080</b>	<b>¥219,171</b>	<b>¥65,091</b>	<b>42.2%</b>

(1) Due to our adoption of IFRS 15 starting on January 1, 2018, “sales commission expenses,” which were part of “authentication and other service expenses” prior to January 1, 2018, are now presented separately as a new line item, with the remainder of “authentication and other service expenses” re-categorized as “outsourcing and other service expenses,” starting with the year ended December 31, 2018. Such change has been applied to the figures for the year ended December 31, 2017. For more information on the impact of our adoption of IFRS 15, see “— Recently Adopted Accounting Standards — The Impact of IFRS 15” and Note 3(30) of the notes to our annual consolidated financial statements.



- (2) Other operating expenses include rent, cost of goods sold relating to the sale of our products, provisions for the redemption of LINE Points, travel, supplies, professional fees, taxes and dues, training and other miscellaneous operating expenses.

The following table presents a breakdown of our operating expenses as percentages of revenues for the periods indicated.

	For the year ended December 31,	
	2017	2018
	(in percentages of total revenues)	
Payment processing and licensing expenses . . . . .	17.7%	14.9%
Sales commission expenses . . . . .	0.5	7.7
Employee compensation expenses . . . . .	25.4	27.7
Marketing expenses . . . . .	9.3	9.8
Infrastructure and communication expenses . . . . .	5.4	5.1
Outsourcing and other service expenses . . . . .	14.4	15.4
Depreciation and amortization expenses . . . . .	4.3	5.4
Other operating expenses . . . . .	15.2	19.9
Total . . . . .	<u>92.2%</u>	<u>105.8%</u>

Our operating expenses increased by 42.2%, or ¥65,091 million, from ¥154,080 million in 2017 to ¥219,171 million in 2018, primarily due to increases in sales commission expenses, employee compensation expenses, outsourcing and other service expenses, marketing expenses and other operating expenses. Our operating expenses as a percentage of revenues increased from 92.2% in 2017 to 105.8% in 2018. Specifically:

Sales Commission Expenses

	For the year ended December 31,		Changes	
	2017	2018	Amount	%
	(in millions of yen or percentages)			
Sales commission expenses . . . . .	¥ 899	¥15,960	¥15,061	1,675.3%
Percentage of revenues . . . . .	0.5%	7.7%		

Our sales commission expenses increased significantly by ¥15,061 million, from ¥899 million in 2017 to ¥15,960 million in 2018, primarily due to our adoption of IFRS 15 and the recognition of expenses relating to payments made to advertising agencies, as well as an increase in advertising fees we paid in connection with the consolidation of the operations of LINE Part-time Job starting in April 2018. We recognized ¥8,892 million of sales commission to advertising agencies in 2018 related to our decision to change the revenue recognition method of certain advertising products and services pursuant to IFRS 15 based on the total consideration received from our customers, including for services provided by our advertising agencies. See “— Recently Adopted Accounting Standards — The Impact of IFRS 15” and Note 3(30) of the notes to our annual consolidated financial statements. As such sales commission expenses increased by the same amount as our revenue from related activities, there was no effect on the profit from operating activities.

Employee Compensation Expenses

	For the year ended December 31,		Changes	
	2017	2018	Amount	%
	(in millions of yen or percentages)			
Employee compensation expenses . . . . .	¥42,469	¥57,493	¥15,024	35.4%
Percentage of revenues . . . . .	25.4%	27.7%		

Our employee compensation expenses increased by 35.4%, or ¥15,024 million, from ¥42,469 million in 2017 to ¥57,493 million in 2018, primarily due to increases in salary, bonus and welfare expenses reflecting an increase in the number of our employees, particularly in connection with our investment in talent for our new fintech businesses, LINE Clova AI platform and blockchain-related initiatives. The number of our full-time employees increased from 4,344 as of December 31, 2017 to 5,595 as of December 31, 2018.

#### Outsourcing and Other Service Expenses

	For the year ended December 31,		Changes	
	2017	2018	Amount	%
	(in millions of yen or percentages)			
Outsourcing and other service expenses . . . . .	¥24,007	¥31,825	¥ 7,818	32.6%
Percentage of revenues . . . . .	14.4%	15.4%		

Our outsourcing and other service expenses increased by 32.6%, or ¥7,818 million, from ¥24,007 million in 2017 to ¥31,825 million in 2018, primarily due to an increase in costs relating to system improvements and software upgrades to facilitate the operation of our servers supporting an increasingly wide range of services we offer, in particular our fintech business, as well as consulting fees we pay to third-party experts in the fintech industry that review and advise on our new business plans. Such effect was offset in part by a decrease in fees for accessing wireless communications networks of a third-party mobile telecommunications company for our LINE Mobile MVNO service until April 2018, when LINE MOBILE, the provider of such services, started to be accounted for as an associate under the equity method rather than as a consolidated subsidiary.

#### Marketing Expenses

	For the year ended December 31,		Changes	
	2017	2018	Amount	%
	(in millions of yen or percentages)			
Marketing expenses . . . . .	¥15,477	¥20,311	¥ 4,834	31.2%
Percentage of revenues . . . . .	9.3%	9.8%		

Marketing expenses increased by 31.2%, or ¥4,834 million, from ¥15,477 million in 2017 to ¥20,311 million in 2018, primarily due to increases in marketing of various products and services for our fintech businesses, particularly the promotion of LINE Pay, and for LINE Manga. Such effect was partially offset by a decrease in marketing expenses for the promotion of the LINE brand, the need for which has gradually become diminished given widespread recognition of the LINE brand by the general public.

#### Other Operating Expenses

	For the year ended December 31,		Changes	
	2017	2018	Amount	%
	(in millions of yen or percentages)			
Other operating expenses . . . . .	¥25,403	¥41,141	¥15,738	62.0%
Percentage of revenues . . . . .	15.2%	19.9%		

Other operating expenses increased by 62.0%, or ¥15,738 million, from ¥25,403 million in 2017 to ¥41,141 million in 2018, primarily due to increases in expenses relating to provisions for the redemption of LINE Points, cost of goods sold relating to the sale of our products and rent expenses. Our expenses relating to provisions for the redemption of LINE Points increased by 450.0%, or ¥4,527 million, from ¥1,006 million in 2017 to ¥5,533 million in 2018, primarily due to an increase in the total number of LINE Points offered to our

users as an incentive for the use of LINE Pay. Our cost of goods increased by 54.1%, or ¥2,676 million, from ¥4,946 million in 2017 to ¥7,622 million in 2018, primarily reflecting increases in sales of LINE Friends merchandise. Our rent expenses increased by 37.4%, or ¥2,297 million, from ¥6,143 million in 2017 to ¥8,440 million, primarily due to an increase in the amount of our rental fees in connection with the relocation of our head offices to Shinjuku in April 2017.

*By Segment*

The following table presents a breakdown of our operating expenses and changes therein for the periods indicated by reportable segment.

Core Business Segment

	For the year ended December 31,		Changes	
	2017	2018	Amount	%
	(in millions of yen or percentages)			
Operating expenses for our core business segment . . . . .	¥114,906	¥151,839	¥36,933	32.1%
Percentage of revenues . . . . .	68.7%	73.3%		

Operating expenses for our core business segment increased by 32.1%, or ¥36,933 million, from ¥114,906 million in 2017 to ¥151,839 million in 2018, primarily due to an increase in sales commission expenses in connection with the recognition of expenses relating to payments made to advertising agencies pursuant to our adoption of IFRS 15 and an increase in employee compensation expenses reflecting an increase in the number of our employees in the segment, as well as an increase in marketing costs in connection with LINE Part-time Job and LINE Manga.

Strategic Business Segment

	For the year ended December 31,		Changes	
	2017	2018	Amount	%
	(in millions of yen or percentages)			
Operating expenses for our strategic business segment . . . . .	¥ 35,665	¥ 63,715	¥28,050	78.6%
Percentage of revenues . . . . .	21.3%	30.8%		

Operating expenses for our strategic business segment increased by 78.6%, or ¥28,050 million, from ¥35,665 million in 2017 to ¥63,715 million, primarily due to an increase in employee compensation expenses reflecting an increase in the number of our employees in connection with our investment in talent for our new fintech businesses, LINE Clova AI platform and blockchain-related initiatives, and an increase in outsourcing and other service expenses (including costs relating to system improvements and software upgrades to facilitate the operation of our servers supporting an increasingly wide range of services we offer as well as consulting fees we pay to third-party experts in the fintech industry that review and advise on our new business plans).

***Profit from Operating Activities***

Primarily due to the factors described above, our profit from operating activities decreased by 35.8%, or ¥8,968 million, from ¥25,078 million in 2017 to ¥16,110 million in 2018. Our profit from operating activities as a percentage of our revenues and other operating income decreased from 14.0% in 2017 to 6.8% in 2018, as the increase in operating expenses outpaced the increase in revenue and other operating income.

The following table presents a breakdown of our profit from operating activities by segments and changes therein for the periods indicated.

	For the year ended December 31,		Changes	
	2017	2018	Amount	%
	(in millions of yen or percentages)			
Core business segment	¥ 34,250	¥ 26,559	¥ (7,691)	(22.5)%
Strategic business segment	(17,674)	(34,931)	(17,257)	97.6
Corporate expenses and adjustments <sup>(1)</sup>	8,502	24,482	15,980	188.0
Total	¥ 25,078	¥ 16,110	¥ (8,968)	(35.8)%

(1) Mainly includes differences arising from other operating income (including gains on loss of control of subsidiaries) and share-based compensation expenses.

#### *Core Business Segment*

Our profit from operating activities of the core business segment decreased by 22.5%, or ¥7,691 million, from ¥34,250 million in 2017 to ¥26,559 million in 2018, due to the greater increase in operating expenses from the segment, as compared to the increase in operating revenue from the segment, for the various reasons described above. The increase in operating expenses from the segment due to our adoption of IFRS 15 had no impact on our profit from operating activities because our revenue from the core business segment increased by the same amount. See “— Critical Accounting Judgments, Estimates and Assumptions — Revenue Recognition — Presentation of Advertisements.”

#### *Strategic Business Segment*

Our loss from operating activities of the strategic business segment decreased by 97.6%, or ¥17,257 million, from ¥17,674 million in 2017 to ¥34,931 million in 2018, due to the greater increase in operating expenses from the segment, as compared to the increase in operating revenue from the segment, for the various reasons described above.

#### *Corporate Expenses and Adjustments*

Our corporate expenses and adjustments increased by 188.0%, or ¥15,980 million, from ¥8,502 million in 2017 to ¥24,482 million in 2018, primarily due to an increase in other operating income resulting from the recognition of gains relating to the loss of control of LINE Games Corporation and LINE MOBILE, as described above.

#### *Finance Income and Finance Costs*

Our finance income, which mainly consists of interest income, increased by 60.7%, or ¥156 million, from ¥257 million in 2017 to ¥413 million in 2018, primarily due to an increase in the amount of investments in interest-bearing debt instruments. Our finance costs, which mainly consist of interest expenses, increased significantly by ¥493 million, from ¥26 million in 2017 to ¥519 million in 2018, primarily due to the staggered recognition of underwriting commission paid in connection with the issuance of the Convertible Bonds as interest expense until maturity and late payment interests imposed on LINE Plus Corporation, our wholly-owned subsidiary, by the Korean tax authorities, in connection with a tax audit conducted in September 2018.

#### *Share of Loss of Associates and Joint Ventures*

We recognized net loss on our share of associates and joint ventures of ¥6,321 million in 2017 primarily related to our interest in Snow Corporation that increased following the transfer of our camera application

business to Snow Corporation in May 2017 to pursue further synergies. See “Item 4.B. Business Overview — Our Investments — Investments by LINE Corporation” and “— Comparison of the Years Ended December 31, 2016 and 2017 — Share of Loss of Associates and Joint Ventures.” We recognized net loss on our share of associates and joint ventures of ¥11,148 million in 2018, representing an increase of 76.4% from 2017, primarily related to our interest in LINE MOBILE, which started to be accounted for as an associate under the equity method rather than as a consolidated subsidiary in April 2018 following our partnership agreement with SoftBank pursuant to which our interest in LINE MOBILE decreased from 100.0% to 49.0%. The losses incurred by LINE MOBILE in 2018 were primarily due to an increase in marketing expenses relating to the active promotion of its MVNO service.

#### ***Loss on Foreign Currency Transactions, Net***

We recognized a 10.3% increase in net loss on foreign currency transactions from ¥818 million in 2017 to ¥902 million in 2018 resulting from fluctuations in exchange rates, particularly the fluctuation of the Japanese yen against the Korean won, U.S. dollar and the Taiwanese dollar during these periods.

During 2017, the Japanese yen weakened against the Korean won in the second half of the year. Our net loss on foreign currency transactions in 2017 related primarily to foreign currency loss on Korean won-denominated payables at LINE Plus Corporation and LINE Corporation, whose functional currency is the Japanese yen.

During 2018, the Japanese yen fluctuated significantly against the U.S. dollar throughout the year. Our net loss on foreign currency transactions in 2018 related primarily to foreign currency losses on U.S. dollar-denominated bank deposits at LINE Financial Asia and LINE Corporation, whose functional currency is the Japanese yen.

#### ***Other Non-operating Income***

In 2017, we recognized other non-operating income of ¥1,963 million primarily resulting from a ¥1,096 million gain on financial assets at fair value through profit or loss related to fair value measurement gain of conversion right of redeemable preferred stock in 4:33 Creative Lab, a Korean game development company we invested in through LINE C&I Corporation, as well as a ¥751 million gain on sale of financial assets related to our disposition of holdings in gumi Inc., a mobile games developer and publisher listed on the Tokyo Stock Exchange, and three other listed companies. In 2018, we recognized other non-operating income of ¥869 million primarily due to a ¥555 million gain on financial assets at fair value through profit or loss resulting primarily from fair value measurement gain of convertible redeemable preferred stock in NPLE Games Co., Ltd., a Korean game development company we invest in through LINE Games Corporation, as well as gains on our investments in two other entities.

#### ***Other Non-operating Expenses***

In 2017, we recognized other non-operating expenses of ¥1,988 million primarily due to a ¥1,761 million loss on impairment of available-for-sale financial assets related primarily to our investment in 4:33 Creative Lab. In 2018, we recognized other non-operating expenses of ¥1,469 million primarily due to a ¥1,231 million loss on financial assets at fair value through profit or loss primarily related to fair value measurement loss of convertible redeemable preferred stock in 4:33 Creative Lab.

#### ***Income Tax Expenses***

Our income tax expenses decreased by 4.0%, or ¥400 million, from ¥9,922 million in 2017 to ¥9,522 million in 2018. Our effective income tax rate of 54.7% for continuing operations for 2017 differed from the Japanese statutory tax rate of 31.7% for 2017 primarily due to pre-tax losses recorded by some of our

subsidiaries on a stand-alone basis and the recognition of share of loss of associates and joint ventures for which no deferred tax assets were recognized, as the related tax benefits could not be recognized. Our effective income tax rate of 283.9% for continuing operations for 2018 differed from the Japanese statutory tax rate of 31.7% for 2018 primarily due to pre-tax losses recorded by some of our subsidiaries on a stand-alone basis, as well as additional taxes paid by LINE Plus Corporation, our wholly-owned subsidiary in Korea, to the Korean tax authorities as a result of a tax audit conducted in September 2018. Such effect was partially offset by the recognition of a gain on fair value measurement relating to the deconsolidation resulting from the conversion of LINE MOBILE and LINE Games Corporation from consolidated subsidiaries to associates accounted for under the equity method in April 2018 and November 2018, respectively.

***Profit (Loss) from Discontinued Operations, Net of Tax***

We recognized loss from discontinued operations, net of tax, of ¥13 million in 2017 and profit from discontinued operations, net of tax, of ¥376 million in 2018 related to the liquidation of our MixRadio business effective March 21, 2016 and its retrospective presentation as a discontinued operation for both periods. See “— Major Components of Our Results of Operations — Profit (Loss) from Discontinued Operations, Net of Tax.”

***Profit (Loss) for the Year***

As a result of the factors described above, we recorded a profit for the year of ¥8,210 million in 2017 but recorded a loss for the year of ¥5,792 million in 2018. Our profit for the year as a percentage of revenues and other operating income was 4.6% in 2017 and our loss for the year as a percentage of revenues and other operating income was (2.5)% in 2018.

***Comparison of the Years Ended December 31, 2016 and 2017***

The results of operations for the years ended December 31, 2016 and 2017 have been restated based on the bifurcation of our reportable segments in 2018 (see “— Overview”).

## Revenues

The following table presents a breakdown of our revenues by major services and changes therein for the periods indicated.

	For the year ended December 31,		Changes	
	2016	2017	Amount	%
(in millions of yen or percentages)				
<b>Core business segment:</b>				
Advertising:				
Display advertising	¥ 10,448	¥ 26,609	¥16,161	154.7%
Account advertising	33,986	38,929	4,943	14.5
Other advertising	10,186	10,433	247	2.4
Sub-total	54,620	75,971	21,351	39.1
Communication, content and others:				
Communication	29,290	30,225	935	3.2
Content	44,784	40,144	(4,640)	(10.4)
Others	1,711	2,816	1,105	64.6
Sub-total	75,785	73,185	(2,600)	(3.4)
Total core business segment	130,405	149,156	18,751	14.4
<b>Strategic business segment:</b>				
LINE Friends	9,383	12,299	2,916	31.1
Others	916	5,692	4,776	521.4
Total strategic business segment	10,299	17,991	7,692	74.7
<b>Total</b>	<b>¥140,704</b>	<b>¥167,147</b>	<b>¥26,443</b>	<b>18.8%</b>

Our revenues increased by 18.8%, or ¥26,443 million, from ¥140,704 million in 2016 to ¥167,147 million in 2017 primarily due to increases in revenues of our core business segment and, to a lesser extent, our strategic business segment. Our MPUs increased slightly from 9.4 million in December 2016 to 9.5 million in December 2017, and our aggregate MAUs in our four key countries of Japan, Taiwan, Thailand and Indonesia remained relatively stable, increasing slightly from 167 million to 168 million during the same period, with the increase in MAUs in Japan offset by the decrease in MAUs in Indonesia.

### Core Business Segment

The following table presents a breakdown of our core business segment revenues by major services and changes therein for the periods indicated.

	For the year ended December 31,		Changes	
	2016	2017	Amount	%
(in millions of yen or percentages)				
<b>Advertising:</b>				
Display advertising . . . . .	¥ 10,448	¥ 26,609	¥16,161	154.7%
Percentage of revenues . . . . .	7.4%	15.9%		
Account advertising . . . . .	¥ 33,986	¥ 38,929	¥ 4,943	14.5%
Percentage of revenues . . . . .	24.2%	23.3%		
Other advertising . . . . .	¥ 10,186	¥ 10,433	¥ 247	2.4%
Percentage of revenues . . . . .	7.2%	6.2%		
<b>Communication, content and others:</b>				
Communication . . . . .	¥ 29,290	¥ 30,225	¥ 935	3.2%
Percentage of revenues . . . . .	20.8%	18.1%		
Content . . . . .	¥ 44,784	¥ 40,144	¥(4,640)	(10.4)%
Percentage of revenues . . . . .	31.8%	24.0%		
Others . . . . .	¥ 1,711	¥ 2,816	¥ 1,105	64.6%
Percentage of revenues . . . . .	1.2%	1.7%		
<b>Total core business segment . . . . .</b>	<b>¥130,405</b>	<b>¥149,156</b>	<b>¥18,751</b>	<b>14.4%</b>
Percentage of revenues . . . . .	92.7%	89.2%		

Revenues of our core business segment increased by 14.4%, or ¥18,751 million, from ¥130,405 million in 2016 to ¥149,156 million in 2017, primarily due to increases in revenues from display advertising and account advertising, which were offset in part by a decrease in revenues from content.

**Display advertising.** Revenues from display advertising increased by 154.7%, or ¥16,161 million, from ¥10,448 million in 2016 to ¥26,609 million in 2017, primarily due to increases in revenues from display ads posted on LINE NEWS (as well as LINE TODAY available in select countries outside of Japan) and Timeline. The increase in revenues from such display ads was attributable to a growth in demand for our advertising products and an increase in the level of participation in bidding processes by advertisers, which resulted in an increase in the unit price we charge our advertisers. Such growth in demand was primarily due to growth in the user base of LINE NEWS, LINE Today and Timeline services as well as enhancements to our advertising products that made them more attractive to advertisers. For example, the introduction of LINE NEWS in Japan and LINE TODAY in select countries outside of Japan as a dedicated tab in the LINE messaging application in 2017 contributed to an increase in popularity of such services, which in turn increased the revenues we generated from display ads posted on LINE NEWS and LINE TODAY.

**Account advertising.** Revenues from account advertising increased by 14.5%, or ¥4,943 million, from ¥33,986 million in 2016 to ¥38,929 million in 2017, resulting primarily from increases in revenues from LINE@, Official Accounts and Business Connect, which were offset in part by a decrease in revenues from LINE Point Ads. Revenues from LINE@ increased primarily due to an increase in new advertisers through sign-up incentives and marketing initiatives, particularly in Thailand and Japan. For Official Accounts, the number of paid contracts increased by approximately 17.5% from 549 as of December 31, 2016 to 645 as of December 31, 2017. Revenues from Business Connect also increased primarily as a result of our successful retention of existing advertisers that subscribe to such service as well as an increase in new advertisers through sign-up incentives and marketing initiatives. On the other hand, revenues from LINE Point Ads decreased, reflecting a decrease in utilization of LINE Points by our advertisers.



**Content.** Revenues from content decreased by 10.4%, or ¥4,640 million, from ¥44,784 million in 2016 to ¥40,144 million in 2017 primarily due to a decrease in the sales volume of in-game items for LINE Games, which was offset in part by increases in revenues from LINE Manga, LINE Fortune and LINE Music.

The decrease in the sales volume of in-game items was primarily driven by a decrease in revenues from LINE Rangers, one of our internally-developed games, which was offset in part by an increase in revenues from a third party-developed game, as well as the consolidation of the operating results of NextFloor Corporation, a leading mobile game development company in Korea in which we had acquired a 51.0% interest through our once wholly-owned subsidiary, LINE Games Corporation, starting in July 2017. For internally-developed games, we recognize as revenues the gross amount of consideration paid by users which amplifies the impact of purchases of in-game items on our revenues compared to third-party developed games, for which we recognize as revenues the net proceeds after deducting amounts paid to third-party game developers and payment processing service providers. See “— Major Components of Our Results of Operations — Revenues.” In addition, for a discussion of MAUs and MPUs of LINE Games, which decreased significantly in 2017 compared to 2016, see “— Factors Affecting Our Financial Condition and Results of Operations.”

Partially offsetting decreases in revenues from LINE Games, we recorded increases in revenues from LINE Manga, LINE Fortune and LINE Music in 2017 compared to 2016 primarily reflecting increases in users and their engagement of such services.

#### *Strategic Business Segment*

The following table presents a breakdown of our strategic business segment revenues by major services and changes therein for the periods indicated.

	For the year ended December 31,		Changes	
	2016	2017	Amount	%
	(in millions of yen or percentages)			
<b>LINE Friends</b> .....	¥ 9,383	¥12,299	¥2,916	31.1%
Percentage of revenues .....	6.7%	7.4%		
<b>Others</b> .....	¥ 916	¥ 5,692	¥4,776	521.4%
Percentage of revenues .....	0.7%	3.4%		
<b>Total strategic business segment</b> .....	¥10,299	¥17,991	¥7,692	74.7%
Percentage of revenues .....	7.3%	10.8%		

Revenues of our strategic business segment increased by 74.7%, or ¥7,692 million, from ¥10,299 million in 2016 to ¥17,991 million in 2017, due to increases in revenues from the Others and LINE Friends categories.

**Others.** Revenues from the Others category increased by 521.4%, or ¥4,776 million, from ¥916 million in 2016 to ¥5,692 million in 2017, primarily due to an increase in the subscribers of LINE Mobile MVNO service and an increase in engagement of LINE Pay service in Taiwan.

**LINE Friends.** Revenues from LINE Friends increased by 31.1%, or ¥2,916 million, from ¥9,383 million in 2016 to ¥12,299 million in 2017, primarily due to the expansion of our LINE Friends retail stores in Asia, particularly in Korea and China.

#### *Geographic Information*

Revenues from Japan accounted for 71.7% and 72.6% of our total revenues in 2016 and 2017, respectively. Revenues from Taiwan accounted for 11.1% and 9.9% of our total revenues in 2016 and 2017, respectively.

### Other Operating Income

Our other operating income increased by 103.9%, or ¥6,119 million, from ¥5,892 million in 2016 to ¥12,011 million in 2017, primarily due to the recognition of a ¥10,444 million gain on divestiture of business and subsidiaries relating to the transfer of our camera application business, including B612 and LINE Camera, which was operated by our wholly-owned subsidiary LINE Plus Corporation, to Snow Corporation in May 2017, which was offset in part by our recognition of a gain of ¥2,461 million from our sale of land in Fukuoka to Kyushu Railway Company in June 2016, compared to no such gain in 2017.

### Operating Expenses

#### Total

The following table presents a breakdown of our operating expenses and changes therein for the periods indicated.

	For the year ended December 31,		Changes	
	2016	2017	Amount	%
	(in millions of yen or percentages)			
Payment processing and licensing expenses . . . . .	¥ 29,781	¥ 29,589	¥ (192)	(0.6)%
Sales commission expenses <sup>(1)</sup> . . . . .	615	899	284	46.2
Employee compensation expenses . . . . .	39,445	42,469	3,024	7.7
Marketing expenses . . . . .	11,833	15,477	3,644	30.8
Infrastructure and communication expenses . . . . .	7,770	9,087	1,317	16.9
Outsourcing and other service expenses <sup>(1)</sup> . . . . .	13,779	24,007	10,228	74.2
Depreciation and amortization expenses . . . . .	5,100	7,149	2,049	40.2
Other operating expenses <sup>(2)</sup> . . . . .	18,376	25,403	7,027	38.2
<b>Total . . . . .</b>	<b>¥126,699</b>	<b>¥154,080</b>	<b>¥27,381</b>	<b>21.6%</b>

- (1) Due to our adoption of IFRS 15 starting on January 1, 2018, “sales commission expenses,” which were part of “authentication and other service expenses” prior to January 1, 2018, are now presented separately as a new line item, with the remainder of “authentication and other service expenses” re-categorized as “outsourcing and other service expenses,” starting with the year ended December 31, 2018. Such change has been applied to the figures for the years ended December 31, 2016 and 2017. For more information on the impact of our adoption of IFRS 15, see “— Recently Adopted Accounting Standards — The Impact of IFRS 15” and Note 3(30) of the notes to our annual consolidated financial statements.
- (2) Other operating expenses include rent, cost of goods sold relating to the sale of our products, supplies, travel, professional fees, taxes and dues, training and other miscellaneous operating expenses.

The following table presents a breakdown of our operating expenses as percentages of revenues for the periods indicated.

	For the year ended December 31,	
	2016	2017
	(in percentages of total revenues)	
Payment processing and licensing expenses . . . . .	21.2%	17.7%
Sales commission expenses . . . . .	0.4	0.5
Employee compensation expenses . . . . .	28.0	25.4
Marketing expenses . . . . .	8.4	9.3
Infrastructure and communication expenses . . . . .	5.5	5.4
Outsourcing and other service expenses . . . . .	9.8	14.4
Depreciation and amortization expenses . . . . .	3.6	4.3
Other operating expenses . . . . .	13.1	15.2
<b>Total . . . . .</b>	<b>90.0%</b>	<b>92.2%</b>

Our operating expenses increased by 21.6%, or ¥27,381 million, from ¥126,699 million in 2016 to ¥154,080 million in 2017, primarily due to increases in outsourcing and other service expenses, marketing expenses, employee compensation expenses and rent expenses. Our operating expenses as a percentage of revenues increased from 90.0% in 2016 to 92.2% in 2017.

#### Payment Processing and Licensing Expenses

	For the year ended December 31,		Changes	
	2016	2017	Amount	%
(in millions of yen or percentages)				
Payment processing and licensing expenses .....	¥29,781	¥29,589	¥ (192)	(0.6)%
Percentage of revenues .....	21.2%	17.7%		

Payment processing and licensing expenses decreased by 0.6%, or ¥192 million, from ¥29,781 million in 2016 to ¥29,589 million in 2017 primarily due to a decrease in processing fees paid to payment processing service providers resulting from a decrease in sales of virtual items for internally-developed games. Such effect was offset in part by increases in licensing fees paid to creators of Stickers sold on Creators Market, licensing fees related to various contents offered on the LINE platform and portal sites, including on-demand videos offered on LINE TV, and payment processing fees related to LINE Pay and LINE Mobile MVNO services. In addition, we consolidated in our results the payment processing and licensing expenses of NextFloor Corporation, in which we had acquired a 51.0% interest through our once wholly-owned subsidiary, LINE Games Corporation, starting in July 2017.

#### Employee Compensation Expenses

	For the year ended December 31,		Changes	
	2016	2017	Amount	%
(in millions of yen or percentages)				
Employee compensation expenses .....	¥39,445	¥42,469	¥ 3,024	7.7%
Percentage of revenues .....	28.0%	25.4%		

Our employee compensation expenses increased by 7.7%, or ¥3,024 million, from ¥39,445 million in 2016 to ¥42,469 million in 2017 primarily due to increases in salary, bonus and welfare expenses reflecting an increase in the number of our employees, which effect was partially offset by a decrease in our share-based compensation expenses. The number of our full-time employees increased from 3,085 as of December 31, 2016 to 4,344 as of December 31, 2017. Our share-based compensation expenses, which include expenses related to stock options issued from time to time as well as equity-settled and cash-settled employee stock ownership plans launched in July 2017, decreased by 71.8%, or ¥6,833 million, from ¥9,519 million in 2016 to ¥2,686 million in 2017, as we completed amortization of expenses related to stock options issued in 2015 by January 2017. Our share-based compensation expenses in 2017 related primarily to 23,860 stock options issued in July 2017 that are amortized from the grant date as well as our launch of equity-settled and cash-settled employee stock ownership plans in July 2017. For further details on our stock options and employee stock ownership plans, see “Item 6.E. Share Ownership” and Note 27 of the notes to our annual consolidated financial statements.

#### Marketing Expenses

	For the year ended December 31,		Changes	
	2016	2017	Amount	%
(in millions of yen or percentages)				
Marketing expenses .....	¥11,833	¥15,477	¥ 3,644	30.8%
Percentage of revenues .....	8.4%	9.3%		

Marketing expenses increased by 30.8%, or ¥3,644 million, from ¥11,833 million in 2016 to ¥15,477 million in 2017 primarily due to increases in marketing of various products and services, particularly the promotion of Clova Wave and Clova Friends smart speakers launched in Japan in the fourth quarter of 2017 and LINE Mobile MVNO service. Such effect was partially offset by a decrease in marketing expenses for LINE Games in 2017, reflecting performance of newly released titles, which in turn led to a reduction of our marketing budget for such games.

#### Outsourcing and Other Service Expenses

	For the year ended December 31,		Changes	
	2016	2017	Amount	%
	(in millions of yen or percentages)			
Outsourcing and other service expenses . . . . .	¥ 13,779	¥ 24,007	¥10,228	74.2%
Percentage of revenues . . . . .	9.8%	14.4%		

Our outsourcing and other service expenses increased by 74.2%, or ¥10,228 million, from ¥13,779 million in 2016 to ¥24,007 million in 2017, primarily due to additional fees for accessing wireless communications networks of a third-party mobile telecommunications company related to an increase in the subscribers of our LINE Mobile MVNO service, increase in fees paid to third-party mobile advertising service providers related to delivery of advertising products offered on the LINE platform, as well as an increase in costs relating to system improvements and software upgrades to facilitate the operation of our servers supporting an increasingly wide range of services we offer.

#### Other Operating Expenses

	For the year ended December 31,		Changes	
	2016	2017	Amount	%
	(in millions of yen or percentages)			
Other operating expenses . . . . .	¥ 18,376	¥ 25,403	¥ 7,027	38.2%
Percentage of revenues . . . . .	13.1%	15.2%		

Our other operating expenses increased by 38.2%, or ¥7,027 million, from ¥18,376 million in 2016 to ¥25,403 million in 2017, primarily due to increases in rent and supplies expenses in connection with our relocation to our new headquarters in Shinjuku in April 2017, as well as an increase in cost of goods sold. Our rent expenses increased by 74.1%, or ¥2,614 million, from ¥3,529 million in 2016 to ¥6,143 million in 2017, and our supplies expenses increased by 106.1%, or ¥1,224 million, from ¥1,154 million in 2016 to ¥2,378 million in 2017. Our cost of goods, which relates to the revenue generated from the others category, increased by 40.6%, or ¥1,427 million, from ¥3,519 million in 2016 to ¥4,946 million in 2017 primarily reflecting increases in sales of LINE Friends merchandise and Clova Wave and Clova Friends smart speakers.

#### *By Segment*

The following table presents a breakdown of our operating expenses and changes therein for the periods indicated by reportable segment.

#### Core Business Segment

	For the year ended December 31,		Changes	
	2016	2017	Amount	%
	(in millions of yen or percentages)			
Operating expenses for our core business segment . . . . .	¥101,276	¥114,906	¥13,630	13.5%
Percentage of revenues . . . . .	72.0%	68.7%		

Operating expenses for our core business segment increased by 13.5%, or ¥13,630 million, from ¥101,276 million in 2016 to ¥114,906 million in 2017, primarily due to an increase in outsourcing and other service expenses, including fees paid to third-party mobile advertising service providers for the delivery of our advertising products and costs relating to system improvements and software upgrades for our servers, and an increase in employee compensation expenses reflecting an increase in the number of our employees in the segment, as described above.

#### Strategic Business Segment

	For the year ended December 31,		Changes	
	2016	2017	Amount	%
(in millions of yen or percentages)				
Operating expenses for our strategic business segment . . . . .	¥15,042	¥ 35,665	¥ 20,623	137.1%
Percentage of revenues . . . . .	10.7%	21.3%		

Operating expenses for our strategic business segment increased by 137.1%, or ¥20,623 million, from ¥15,042 million in 2016 to ¥35,665 million in 2017, primarily due to an increase in outsourcing and other service expenses, including fees paid for access to wireless communications networks in connection with the increase in our LINE Mobile MVNO service subscribers and costs relating to system improvements and an increase in marketing expenses from the promotion of our LINE Clova-integrated smart speakers and LINE Mobile MVNO service, as well as an increase in employee compensation expenses reflecting an increase in the number of our employees in the segment, as described above.

#### ***Profit from Operating Activities***

Primarily due to the factors described above, our profit from operating activities increased by 26.0%, or ¥5,181 million, from ¥19,897 million in 2016 to ¥25,078 million in 2017. Our profit from operating activities as a percentage of our revenues and other operating income increased from 13.6% in 2016 to 14.0% in 2017, as the increase in revenues and other operating income outpaced the increase in operating expenses.

The following table presents a breakdown of our profit from operating activities by segments and changes therein for the periods indicated.

	For the year ended December 31,		Changes	
	2016	2017	Amount	%
(in millions of yen or percentages)				
Core business segment . . . . .	¥29,129	¥ 34,250	¥ 5,121	17.6%
Strategic business segment . . . . .	(4,743)	(17,674)	(12,931)	272.6
Corporate expenses and adjustments <sup>(1)</sup> . . . . .	(4,489)	8,502	12,991	NA <sup>(2)</sup>
Total . . . . .	¥19,897	¥ 25,078	¥ 5,181	26.0%

(1) Mainly includes other operating income and share-based compensation expenses, except that the figure for the year ended December 31, 2016 also includes differences in exchange rate under managerial accounting.

(2) NA means “not applicable.”

#### *Core Business Segment*

Our profit from operating activities of the core business segment increased by 17.6%, or ¥5,121 million, from ¥29,129 million in 2016 to ¥34,250 million in 2017, due to the greater increase in operating revenue from the segment, as compared to the increase in operating expenses from the segment, for the various reasons described above.

### *Strategic Business Segment*

Our loss from operating activities of the strategic business segment increased by 272.6%, or ¥12,931 million, from ¥4,743 million in 2016 to ¥17,674 million in 2017, due to the increase in operating expenses from the segment, which outpaced the increase in operating revenue from the segment, for the various reasons described above.

### *Corporate Expenses and Adjustments*

Our corporate expenses and adjustments increased by ¥12,991 million, from ¥(4,489) million in 2016 to ¥8,502 million in 2017, primarily due to an increase in other operating income resulting from the gain on divestiture of business and subsidiaries in connection with the transfer of our camera application business from LINE Plus Corporation to Snow Corporation in May 2017, as described above.

### *Finance Income and Finance Costs*

Our finance income, which mainly consists of interest income, increased by 195.4%, or ¥170 million, from ¥87 million in 2016 to ¥257 million in 2017 due primarily to an increase in the amount of investments in interest-bearing debt instruments. Our finance costs, which mainly consist of interest expenses, decreased by 60.0%, or ¥39 million, from ¥65 million in 2016 to ¥26 million in 2017 primarily due to a decrease in the average monthly balance of our short-term borrowings, as well as the repayment of all of our outstanding bonds in 2016.

### *Share of Loss of Associates and Joint Ventures*

We recognized net loss on our share of associates and joint ventures of ¥833 million in 2016 primarily related to our interests in LINE MUSIC Corporation and Snow Corporation, which incurred losses primarily attributable to cost of content and advertising expenses, respectively. We recognized net loss on our share of associates and joint ventures of ¥6,321 million in 2017 primarily related to our interest in Snow Corporation, which continued to invest in acquiring additional users of camera applications, particularly in China, prior to monetizing its services. Our share of loss in Snow Corporation also increased due to an increase in our ownership interest following the transfer of our camera application business in May 2017 that was operated by our wholly-owned subsidiary, LINE Plus Corporation, to Snow Corporation to pursue further synergies. See “Item 4.B. Business Overview — Our Investments.”

### *Loss on Foreign Currency Transactions, Net*

We recognized a 1,802.3% increase in net loss on foreign currency transactions from ¥43 million in 2016 to ¥818 million in 2017 resulting from fluctuations in exchange rates, particularly the fluctuation of the Japanese yen against the Korean won, U.S. dollar and the Taiwanese dollar during these periods.

During 2016, the Japanese yen strengthened against the U.S. dollar, the Taiwanese dollar and the Korean won, in the first half of the year and, in the second half of the year, weakened to rates similar to those at the beginning of the year. Our net loss on foreign currency transactions in 2016 related primarily to a foreign currency loss on Japanese-yen denominated payables at LINE BIZ.+ PTE LTD, whose functional currency is the U.S. dollar, offset in part by a foreign currency gain on Japanese yen-denominated payables at LINE Taiwan Limited, whose functional currency is the Taiwanese dollar.

During 2017, the Japanese yen weakened against the Korean won in the second half of the year. Our net loss on foreign currency transactions in 2017 related primarily to foreign currency loss on Korean won-denominated payables at LINE Plus Corporation and LINE Corporation, whose functional currency is the Japanese yen.

### ***Other Non-operating Income***

In 2016, we recognized other non-operating income of ¥9 million. In 2017, we recognized other non-operating income of ¥1,963 million primarily resulting from a ¥1,096 million gain on financial assets at fair value through profit or loss related to fair value measurement gain of conversion right of redeemable preferred stock in 4:33 Creative Lab, a Korean game development company we invested in through LINE C&I Corporation, as well as a ¥751 million gain on sale of financial assets related to our disposition of holdings in gumi Inc., a mobile games developer and publisher listed on the Tokyo Stock Exchange, and three other listed companies.

### ***Other Non-operating Expenses***

In 2016, we recognized other non-operating expenses of ¥1,062 million primarily due to a ¥656 million loss on financial assets at fair value through profit or loss related primarily to the conversion right of redeemable preferred stock in 4:33 Creative Lab, a Korean game development company we invested in through LINE C&I Corporation. In 2017, we recognized other non-operating expenses of ¥1,988 million primarily due to a ¥1,761 million loss on impairment of available-for-sale financial assets related primarily to our investment in 4:33 Creative Lab.

### ***Income Tax Expenses***

Our income tax expenses increased by 11.4%, or ¥1,018 million, from ¥8,904 million in 2016 to ¥9,922 million in 2017. Our effective income tax rate of 49.5% for continuing operations for 2016 differed from the Japanese statutory tax rate of 33.5% for 2016 primarily due to non-deductible share-based payment expenses incurred in connection with stock options granted to employees and directors who are non-Japanese residents as well as pre-tax losses of subsidiaries for which no deferred tax assets were recognized. Our effective income tax rate of 54.7% for continuing operations for 2017 differed from the Japanese statutory tax rate of 31.7% for 2017 primarily due to pre-tax losses recorded by some of our subsidiaries on a stand-alone basis and the recognition of share of loss of associates and joint ventures for which no deferred tax assets were recognized, as the related tax benefits could not be recognized.

### ***Loss from Discontinued Operations, Net of Tax***

We recognized loss from discontinued operations, net of tax, of ¥1,982 million in 2016 and ¥13 million in 2017 related to the liquidation of our MixRadio business effective March 21, 2016 and its retrospective presentation as a discontinued operation for both periods. See “— Major Components of Our Results of Operations — Profit (Loss) from Discontinued Operations, Net of Tax.”

### ***Profit for the Year***

As a result of the factors described above, our profit for the year increased by 15.6%, or ¥1,106 million, from ¥7,104 million in 2016 to ¥8,210 million in 2017. Our profit for the year as a percentage of revenues and other operating income decreased from 4.8% in 2016 to 4.6% in 2017.

## Item 5.B. *Liquidity and Capital Resources*

### Liquidity and Capital Resources

#### *Cash Flows*

The following table sets forth our cash flows for the periods indicated.

	For the year ended December 31,		
	2016	2017	2018
	(in millions of yen)		
Net cash provided by operating activities	¥ 28,753	¥ 10,965	¥ 9,122
Net cash used in investing activities	(34,086)	(34,230)	(52,884)
Net cash provided by financing activities	106,628	11,439	178,401
Cash and cash equivalents at the beginning of the year	33,652	134,698	123,606
Cash and cash equivalents at the end of the year	134,698	123,606	256,978

Our principal sources of liquidity since 2016 to date have been proceeds from the completion of our initial public offering in July 2016, incurrences of debt, the issuance of the Convertible Bonds in September 2018 and cash generated by our operations. We manage our liquidity risk to meet our working capital and operational requirements by continually managing projected cash flows. We also aim to mitigate liquidity risk by contracting with financial institutions with respect to bank overdrafts and banking facility agreements for efficient management of funds. We believe that cash from our operations, current and future financing arrangements (including short-term and long-term borrowing facilities and issuances of corporate bonds, such as convertible bonds) and existing cash and cash equivalents are likely to be sufficient to satisfy our operating cash requirements, capital expenditure needs and debt service requirements for the next twelve months. However, we may need additional cash resources in the future if we find and wish to pursue opportunities for investment, acquisition or strategic cooperation, which may include investing in technology, technical infrastructure or acquisition of additional equity interests in subsidiaries or associates. If we determine that our cash requirements exceed our available cash holdings, we may seek to issue additional debt or equity securities or obtain additional credit facilities or other sources of funding.

The Payment Services Act requires entities that engage in business activities involving advance payments from customers using prepaid payment instruments such as virtual currencies to set aside amounts covering at least 50% of the total amount of the unused amounts or credits represented by such instruments issued as of the end of either the first or third quarter of any year (if such total amount is more than ¥10 million) for the users, either by making a deposit or by entering into certain guarantee or trust agreements. In accordance with the Payment Services Act, we had deposited ¥635 million as guarantee deposits as of December 31, 2018. As part of our efforts to comply with the Payment Services Act, we deposited our investments in Japanese government bonds of ¥280 million as of December 31, 2016, 2017 and 2018, which we intend to hold until maturity. In addition, we entered into credit guarantee contracts with banks for ¥10,100 million as of December 31, 2016, for ¥12,500 million as of December 31, 2017 and for ¥18,500 million as of December 31, 2018.

#### *Net Cash Provided by Operating Activities*

Our net cash provided by operating activities consists of net profit or loss adjusted for certain non-cash items including depreciation and amortization and share-based compensation as well as the effect of changes in working capital and other activities.

Our net cash provided by operating activities decreased from ¥10,965 million in 2017 to ¥9,122 million in 2018, despite an increase in our gross cash flow from sales activities as described above. Our net cash



provided by operating activities was negatively impacted by a decrease in the growth rate of deposits made by LINE Pay users in Taiwan in 2018 compared to 2017, which amount is re-classified from advances received to others starting in 2018, as well as the payment of issuance costs relating to our issuance of the Convertible Bonds in September 2018, primarily consisting of underwriting commission. These factors were largely offset by a decrease in trade and other receivables from 2017 to 2018, mainly due to the accelerated collection of fees from payment processing service providers, which had a positive impact on our net cash provided by operating activities during the same period.

Our net cash provided by operating activities decreased from ¥28,753 million in 2016 to ¥10,965 million in 2017, despite an increase in our gross cash flow from sales activities as described above. Our net cash provided by operating activities was negatively impacted by an increase in trade and other receivables from ¥756 million in 2016 to ¥13,539 million in 2017 primarily due to the expansion of certain of our businesses, in particular LINE Pay service in Taiwan, as well as a lag in the timing of collection of fees from payment processing service providers and advertising agencies. Cash used in payment of income taxes also increased from ¥7,522 million in 2016 to ¥12,421 million in 2017, and an increase in the buildup of our inventories, primarily consisting of our Clova Wave and Clova Friends smart speakers as well as LINE Friends merchandise, negatively impacted our cash flows by ¥2,366 million in 2017 compared to a positive impact on our cash flows amounting to ¥407 million in 2016. On the other hand, better management of our trade and other payables resulted in a positive impact on our cash flows by ¥6,215 million in 2017 compared to a negative impact on our cash flows by ¥1,620 million in 2016, which helped offset these effects.

#### *Net Cash Used in Investing Activities*

Our net cash used in investing activities increased from ¥34,230 million in 2017 to ¥52,884 million in 2018 primarily due to an increase in our purchases of time deposits from ¥1,282 million in 2017 to ¥13,443 million in 2018, an increase in investments in debt instruments from ¥6,433 million in 2017 to ¥15,661 million in 2018, an increase in investments in associates and joint ventures from ¥5,566 million in 2017 to ¥14,214 million in 2018 mainly related to our investments in FOLIO, as well as an increase in payments for acquisition of property and equipment and intangible assets from ¥12,622 million in 2017 to ¥20,939 million in 2018 mainly related to our acquisition of additional servers. These factors were partially offset by an increase in proceeds from maturities of time deposits from ¥401 million in 2017 to ¥13,843 million in 2018 and a decrease in payment for acquisition of subsidiaries and businesses from ¥11,887 million in 2017 to ¥188 million in 2018.

Our net cash used in investing activities increased slightly from ¥34,086 million in 2016 to ¥34,230 million in 2017 primarily due to an increase in acquisition of subsidiaries and businesses, net of cash acquired, from ¥423 million in 2016 to ¥11,887 million in 2017 as well as an increase in acquisition of property and equipment and intangible assets from ¥6,352 million in 2016 to ¥12,622 million in 2017. In 2017, we recorded net cash outflow of ¥5,215 million related to our acquisition of a 100.0% interest in FIVE Inc., which specializes in operating a video advertising platform for mobile phones, as well as net cash outflow of ¥2,005 million related to our acquisition of a 51.0% interest in NextFloor Corporation, a game company in Korea. The increase in acquisition of property and equipment and intangible assets was primarily due to expansion and relocation of our headquarters to Shinjuku in April 2017. These factors were substantially offset by a decrease in cash outflow from purchases of time deposits from ¥10,790 million in 2016 to ¥1,282 million in 2017 as well as proceeds from redemption of debt instruments of ¥5,209 million in 2017 compared to no such proceeds in 2016.

#### *Net Cash Provided by Financing Activities*

Our net cash provided by financing activities increased significantly from ¥11,439 million in 2017 to ¥178,401 million in 2018 primarily due to a cash inflow of ¥149,978 million from our issuance of the Convertible Bonds in 2018 compared to no such proceeds in 2017. In September 2018, we raised a total of approximately ¥146.3 billion from the issuance of the Convertible Bonds through an offering pursuant to

Regulation S under the Securities Act and a private placement to NAVER Corporation, our largest shareholder. The Convertible Bonds are convertible into shares of our common stock at an initial conversion price per share of ¥7,467 for the Convertible Bonds due 2023 and ¥7,518 for the Convertible Bonds due 2025. We are using the proceeds from this issuance to fund investments in our fintech businesses, LINE Clova AI platform and blockchain-related initiatives. Our net cash provided by financing activities was also positively impacted by an increase in capital contribution from non-controlling interests from ¥345 million in 2017 to ¥26,439 million in 2018 primarily related to proceeds from the issuance of new shares by LINE Biz+ Taiwan Limited and LINE Digital Frontier to non-controlling interests. Such factors were offset in part by a decrease in proceeds from exercise of stock options from ¥11,489 million in 2017 to ¥1,002 million in 2018.

Our net cash provided by financing activities decreased from ¥106,628 million in 2016 to ¥11,439 million in 2017. This decrease was primarily attributable to proceeds from our initial public offering of ¥126,848 million in 2016 compared to no such proceeds in 2017, which was offset in part by a decrease in net repayment of short-term borrowings from ¥20,752 million in 2016 to ¥107 million in 2017 as well as an increase in proceeds from exercise of stock options from ¥1,750 million in 2016 to ¥11,489 million in 2017.

### Contractual Obligations and Commitments

The following table sets forth the amount of contractual obligations as of December 31, 2018, and the effect such obligations are expected to have on our liquidity and cash flow in future periods.

	Payments Due by Period				
	Total	Less than 1 Year	1 to 3 Years	4 to 5 Years	More than 5 Years
	(in millions of yen)				
Corporate bond obligations <sup>(1)</sup>	¥146,320	¥ —	¥ —	¥73,160	¥ 73,160
Short-term borrowing obligations <sup>(2)</sup>	23,019	23,019	—	—	—
Operating lease obligations <sup>(3)</sup>	58,688	9,662	18,127	8,099	22,800
Purchase obligations <sup>(4)</sup>	1,820	1,820	—	—	—
Deposits received <sup>(5)</sup>	13,653	13,653	—	—	—
Office security deposits received under sublease agreement <sup>(6)</sup>	16	—	16	—	—
Future estimated defined benefit plan payments <sup>(7)</sup>	6,734	276	795	1,115	4,548
Trade and other payables	35,210	34,985	225	—	—
<b>Total</b>	<b>¥285,460</b>	<b>¥83,415</b>	<b>¥19,163</b>	<b>¥82,374</b>	<b>¥100,508</b>

- (1) Represents the aggregate principal amount of the Convertible Bonds to be redeemed at maturity in 2023 and 2025, as applicable, unless previously redeemed or purchased and cancelled, or the stock acquisition rights incorporated therein have already been exercised.
- (2) As of December 31, 2018, the book value of our short-term borrowings was ¥23,000 million.
- (3) We enter into operating lease agreements for certain office space and stores.
- (4) Our purchase obligations include contracts for property and equipment and intangible assets. See Note 9(3) and 10(3) of the notes to our annual consolidated financial statements.
- (5) The deposits received primarily relate to deposits made by LINE Pay users as of December 31, 2018. The obligations arising from such deposits are extinguished when such deposits are redeemed through LINE Pay transactions and continue to change as LINE Pay users make or redeem deposits. Accordingly, for purposes of this table, all such obligations are presented as due in less than one year.
- (6) The deposits received primarily relate to the sublease of our store spaces.
- (7) Represents, as of December 31, 2018, the expected amount of retirement benefits that we will be required to pay within ten years under applicable law to employees of our Korean subsidiaries, including LINE Plus Corporation, LINE PLAY Corporation, LINE Biz Plus Corporation and LINE Friends Corporation, when they reach their normal retirement age. The amounts were determined based on the employees' current salary rates and the number of service years that will have been accumulated upon their retirement. These amounts do not include amounts that may be paid to employees who cease to work at the relevant company before their normal retirement age.

### Critical Accounting Judgments, Estimates and Assumptions

The preparation of our consolidated financial statements requires us to make difficult, complex and subjective judgments in making the appropriate estimates and assumptions that affect the amounts reported in our

consolidated financial statements. By their nature, these judgments are subject to inherent uncertainty. These judgments are based on our historical experience, terms of existing contracts, our observation of trends in the relevant industries, information provided by our customers and information available from other outside sources, as appropriate. While we believe our estimates and judgments are reasonable under the circumstances in which they were made, there can be no assurance that our judgments will prove to be correct or that actual results reported in future periods will not differ from our expectations reflected in our accounting treatment of certain items. For a discussion of our significant accounting judgments, estimates and assumptions, see Note 4 of the notes to our annual consolidated financial statements.

### ***Revenue Recognition***

We believe that revenue recognition is a critical accounting estimate because significant management judgment is involved in determining the stages of completion of various transactions involving the services or products offered by us at which time revenue is recognized.

#### *Revenue Recognition for Stickers, Sponsored Stickers, LINE Point Ads and Advertising Services*

We recognize revenue associated with certain communication and content sales and with advertising services by reference to the stage of completion. Starting on January 1, 2018, we have adopted IFRS 15, a new accounting standard issued by the IASB that establishes a five-step revenue recognition model that applies to all revenue generated from contracts with customers, regardless of the type of transaction or the industry, with limited exceptions. We concluded that the current methods of revenue recognition and measurement are in accordance with IFRS 15, with the exceptions outlined below:

***LINE Stickers, Creator Stickers and emoji (collectively, “Stickers”)***. The adoption of IFRS 15 resulted in a change to the timing of recognition of revenues from our sales of Stickers, where revenue is now recognized over an estimated usage period on a straight-line basis instead of the previous method, which was over time but on an accelerated basis. Under the previous method, we deemed the user’s usage pattern of Stickers, which represented a user’s consumption of benefits, to be the measuring method that best depicted the progress toward satisfaction of performance based on a contract, and recognized revenue during the earlier part of the estimated usage period.

IFRS 15 clarifies the concept of providing a service of standing ready to mean providing a service to users or making a service available to users for their use as and when they decide to use such service. We have determined that the Sticker services that we provide to our users employ a concept similar to that of a service of standing ready. Our performance obligation to our customers, who are users that have purchased our Stickers, is to make Stickers 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 we make Stickers available to them for their use. Because our performance obligation is evenly fulfilled throughout a certain period of time and the users receive the benefit of our services evenly throughout the estimated usage period of Stickers, we have determined that the straight-line method over an estimated usage period would be the best way to measure the progress toward complete satisfaction of our performance obligation. As a result of our adoption of IFRS 15, our revenue and profit from operating activities for the year ended December 2018 increased by ¥168 million and ¥162 million, respectively, compared to the previous method.

***LINE Sponsored Stickers***. The adoption of IFRS 15 resulted in a change to the timing of recognition of revenues from our sales of Sponsored Stickers, where revenue is now recognized over an estimated usage period on a straight-line basis instead of the previous method, which was over time but on an accelerated basis. Under the previous method, we deemed the user’s usage pattern of Sponsored Stickers, which represented its progress of rendering the services to the users, to be the measuring method that best depicted the progress toward satisfaction of performance based on a contract, and recognized revenue based on the user’s usage pattern of Sponsored Stickers, which was weighted toward the earlier part of the period.

IFRS 15 clarifies the definition of a “customer” to mean “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.” In addition, a contract with “customers” is within the scope of IFRS 15, which requires the measurement of progress based on the method that reflects the satisfaction of performance obligations to the “customer” of each contract. In the LINE Sponsored Stickers contract, only advertisers are obligated to pay us consideration for Sponsored Sticker services, and users that use Sponsored Stickers do not pay us any consideration, directly or indirectly. As such, we have determined that only advertisers would be considered our “customers” under IFRS 15. Our performance obligation to advertisers is to make Sponsored Stickers available to the users for their use at any given time over a contract period. Accordingly, we have determined that a straight-line method over a contract period would be the best way to measure the progress toward complete satisfaction of our performance obligation. As a result of our adoption of IFRS 15, our revenue and profit from operating activities for the year ended December 2018 increased by ¥304 million and ¥250 million, respectively, compared to the previous method.

**LINE Point Ads.** Under the previous standard, we recognized revenue associated with LINE Points granted to users through LINE Point Ads at fair value as advances received, even though such LINE Points were granted to the end users rather than our customers (*i.e.*, the advertisers) from whom we received the relevant consideration.

IFRS 15 clarifies the definition of a “customer” to mean “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.” As the consideration is provided by advertisers only and there is no other consideration provided directly or indirectly by the end users to whom LINE Points are granted through LINE Point Ads, we have determined that only advertisers would be considered our “customers” under IFRS 15. Accordingly, we have determined that our performance obligation in the contract with such advertisers is satisfied when we provide advertising services, including the issuance of LINE Points to the end users who have taken specific actions that we agreed upon with the advertisers, since we are not obligated toward advertisers to manage LINE Points or to provide the end users with any other services in exchange for such LINE Points. As our performance obligation toward the advertisers is satisfied when LINE Points are granted to the end users, we have decided to recognize revenues from our sales of LINE Point Ads at the time LINE Points are issued to the end users, rather than at the time such LINE Points are utilized by the end users. In addition, under IFRS 15, we recognize the expenses for the LINE Points granted without charge to the end users as provisions at the same time as when such LINE Points are issued to the end users.

As a result of our adoption of IFRS 15, our revenue for the year ended December 31, 2018 increased by ¥84 million, and our profit from operating activities for the year ended December 31, 2018 decreased by ¥218 million, compared to the previous method.

**Presentation of Advertisements.** Revenues from display advertising and other advertising are recognized upon the fulfillment of certain actions under contracts with the advertisers, such as impressions, views and clicks. For advertising services such as Official Accounts, an advertising agency may be involved in providing to customers on our behalf certain services, such as formatting of advertisement publications to comply with our specifications or standards for advertisement publications. Previously, the share attributable to advertising agencies was considered an individually identifiable element, and we recognized revenue excluding such share from the total consideration received from customers as we earned a certain portion of the consideration received, and did not provide the service directly or bear any credit risk relating to the share of the advertising agency.

IFRS 15 reconfigures the evaluation criteria for whether an entity is considered a principal or an agent based on the identification of performance obligations and transfer of control for services. In particular, the guidance states that “an entity is a principal if it controls the specified good or service before that good or service is transferred to a customer” and further enhances the guidance and interpretations related to whether an entity

controls the rights to goods or services provided by other parties. This includes situations where an entity has the ability to direct other parties to perform services to customers on the entity's behalf. Since advertising agencies' services, such as formatting of advertisement publications, are provided to customers based on our specifications or standards for advertisement publications, we have determined that we control the services provided by advertising agencies and that we are deemed to be the principal. Due to the factors above, we changed our method of revenue recognition to recognize the total consideration received from a customer, including the services provided by advertising agencies.

As a result of our adoption of IFRS 15, our revenue for the year ended December 31, 2018 increased by ¥8,837 million compared to the previous method. However, there was no effect on our profit from operating activities for the year ended December 31, 2018 because our sales commission expenses increased by the same amount. Such increase in sales commission expenses is in accordance with IFRS 15, pursuant to which we now recognize the costs of contracts consisting of consideration payable to an advertising agency as an asset and such costs are expensed as the related revenues are recognized, which process recurs every time an advertising contract is renewed at the end of the original term of the contract.

For a discussion of the adoption of IFRS 15 and the adjustments made to line items presented in our annual consolidated financial statements due to the change from IAS 18 and Other Standards applied previously to IFRS 15, including the impact on the line items in the consolidated statements of financial position, see Note 3(30) of the notes to our annual consolidated financial statements.

#### *Revenue Recognition for Internally-developed Virtual Items*

We offer both consumable and durable virtual items in our internally-developed games and applications. Consumable virtual items are virtual items that are consumed by following an end users' specific action and do not provide end users with continuing benefits, whereas durable virtual items are virtual items that provide the end user with continuing benefits over a specific period. Our performance obligation with respect to both consumable virtual items and durable virtual items is to make such items available to the users for their use at any given time, employing a concept similar to that of a service of standing ready, which is clarified by IFRS 15 to mean providing a service to users or making a service available to users for their use as and when they decide to use such service. The period of benefit of a durable virtual item generally ends at the earliest of (1) an item ceasing to provide further benefits to an end user (i.e., the period of benefit is represented by the usage period of such item), (2) an item being removed from the game board or application by specific in-app or in-game actions taken by an end user or (3) an end user abandoning the game or application. Because consumable virtual items offered by us are generally consumed upon purchase by end users, we recognize revenues attributable to consumable virtual items upon sale. For revenues attributable to durable virtual items, revenues are recognized either (1) on a straight-line basis over the estimated usage period or (2) when we cannot estimate the estimated usage period upfront, on a straight-line basis over the estimated average playing period of paying users adjusted for any virtual items removed from the game board or application. We recognize revenue attributable to the removed virtual items by developing estimated removal rates and applying such rates to total sales generated. We develop an estimated usage period for durable virtual items considering historical data on purchase patterns and user usage behavior.

We define the playing period as the period from when a paying user first purchased virtual credits to when a paying user is deemed to have become inactive, i.e. when a paying user has not logged onto the game/app for two consecutive months. To estimate the average playing period for a paying user, we analyze monthly cohorts composed of paying users who made their first purchase of virtual credits during such month. We track these monthly cohorts and analyze the dates on which paying users within each cohort become inactive. Based on the actual data observed, we extrapolate the future declines in paying users to determine the ending point of a paying user's life beyond the date for which observable data is available. We then use the actual and extrapolated data to calculate the average playing period. We recognize revenues arising from internally-developed games and applications by using the estimated average playing period.

Upon launching a new game or application, we evaluate the nature of the virtual items, the behavior of end users with respect to such items and the availability of supporting data in determining the related revenue recognition policy. We may also consider the data from other existing internally-developed games or applications as well as industry data in determining the related revenue recognition policy if there is insufficient history for such new game or application. If we do not have sufficient historical data to analyze user behavior and cannot identify any similar games or applications to serve as references for us to reasonably estimate the life of the game or application, we defer all sales until such history is developed. Once we have sufficient historical data, we assess the estimations (such as the estimated usage period and the estimated average playing period for paying users) for durable virtual items for each game or application on a quarterly basis. If user behavior changes over time or deviates from our estimates, we may be required to change the timing of our revenue recognition, which could materially and adversely affect our results of operations.

### ***Income Taxes and Recovery of Deferred Tax Assets***

Our income tax expenses are comprised of current tax and deferred tax. Current tax is the expected tax payable or receivable on our taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustments to tax payable in respect of previous years.

We recognize deferred tax on temporary differences between the carrying value of an asset or liability for financial reporting purposes and the amounts used for taxation purposes. The deferred tax assets and deferred tax liabilities are calculated using the tax rates based on tax laws that have been enacted or substantively enacted by the end of the reporting period and the tax rates that are expected to apply to the period when the deferred tax asset is realized or the deferred tax liability is settled. Deferred tax assets are recognized for all deductible temporary differences, unused tax losses carried forward and unused tax credits carried forward to the extent that it is probable that taxable income will be available. The estimation of future taxable income is calculated based on business plans approved by our management, and it is based on our management's subjective judgments and assumptions.

We believe that recognition of deferred tax assets is a significant accounting policy that requires our management's estimates and assumptions regarding, among other things, the level of future taxable income, interpretation of the tax laws and tax planning. Changes in tax laws, projected levels of taxable income and tax planning could affect the effective tax rate and tax balances recorded by us in the future. As of December 31, 2018, we recorded deferred tax assets of ¥17,107 million and deferred tax liabilities of ¥503 million.

### ***Impairment***

#### ***Non-financial Assets***

***Non-current assets other than goodwill.*** Non-current assets other than goodwill, such as property and equipment and intangible assets with definite useful lives, are assessed for indicators of impairment at the end of each reporting period. Intangible assets with indefinite useful lives, including goodwill (described further below), are tested for impairment annually. We evaluate both internal and external sources of information to assess whether impairment indicators exist. Some of the impairment indicators are evidence of obsolescence, significant adverse changes in the technological, market, economic or legal environment of the market in which we operate. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent, if any, of the impairment loss. Likewise, the determination of the assets' recoverable amounts involves the use of estimates by our management that can have a material impact on the respective values and ultimately the amount of any impairment. As a result of the liquidation of MixRadio in March 2016, our MixRadio business was retrospectively classified as part of discontinued operations. In 2016, 2017 and 2018, no impairment loss was recognized for tangible and intangible assets with definite useful lives in connection with our MixRadio business. See "— Major Components of Our Results of Operations — Profit (Loss) from Discontinued Operations, Net of Tax" and Note 9, Note 10 and Note 11 of the notes to our annual consolidated financial statements.

**Goodwill.** As of December 31, 2018, we had ¥17,095 million of goodwill. The goodwill impairment test requires us to test at least annually and more frequently as indicators of impairment are identified. The goodwill impairment test requires us to exercise judgment and assess whether the carrying value of the cash-generating units to which goodwill has been allocated can be supported by the recoverable amount of such cash-generating units. The recoverable amount of a cash-generating unit is determined based on a value-in-use calculation that involves the use of estimates. The main assumptions used in the value-in-use calculation include the discount rate, terminal growth rate and expected future cash flow projections for a period of up to five years from financial budgets approved by our management. Cash flow projections after the planning period are extrapolated using terminal growth rates. Cash flow projections take into account past experience and represent our management's best estimates. These assumptions are subject to significant adjustments from various factors including user trends, spending on marketing, technology infrastructure and competition.

In order to estimate the discount rate that reflects the time value of money and the risks specific to the cash-generating units, we have assumed a risk-free rate equal to one-month average market yields on 10-year Japanese government bonds at the date of performing the annual impairment test. We also incorporated a risk premium, such as a company specific premium and equity premium, in the discount rate. The terminal value growth rates, which are the long-term average inflation rates in Japan, take into consideration external macroeconomic data.

The key assumptions used in our value-in-use calculations are as follows:

	For the year ended December 31,					
	2016		2017		2018	
	Pre-tax discount rate	Terminal growth rate	Pre-tax discount rate	Terminal growth rate	Pre-tax discount rate	Terminal growth rate
<b>LINE business and portal</b> .....	11.7%	1.1%	10.3%	1.6%	—	—
<b>Core business</b>						
<b>Core business</b> .....	—	—	—	—	11.6%	1.3%
<b>Strategic business</b>						
<b>LINE Friends</b> .....	—	—	—	—	11.2%	2.3%
<b>Fintech</b> .....	—	—	—	—	11.8%	1.6%
<b>e-commerce</b> .....	—	—	—	—	11.0%	1.7%
<b>AI</b> .....	—	—	—	—	11.5%	1.7%

In validating the value-in-use determined for the cash-generating units, the sensitivity of key assumptions used in the discounted cash-flow model such as discount rates and the terminal growth rate was evaluated. See Note 11 of the notes to our annual consolidated financial statements. We believe that determining the existence and impairment of goodwill is a critical accounting estimate because significant management judgment is involved in the evaluation of the value of goodwill, and any reasonably possible changes in the key assumptions on which the recoverable amount is based would cause a change in the recoverable amounts of goodwill.

#### *Financial assets*

We assess the expected credit losses associated with our assets measured at amortized cost and at fair value through other comprehensive income. The impairment methodology used to estimate the expected credit losses depends on whether there has been a significant increase in credit risk in the individual financial asset or the asset group that includes such financial asset since initial recognition. We measure the expected credit losses for financial assets measured at amortized cost and at fair value through other comprehensive income for which there has been no significant increase in credit risk at an amount equal to expected credit losses over a 12-month period. On the other hand, if there has been a significant increase in credit risk, we measure the expected credit loss at an amount equal to the lifetime expected credit losses considering all reasonable and supportable

information, including forward-looking information. We use the probability that a default may occur calculated based on historical default data of corporate bond ratings in Japan to measure the 12-month expected credit losses and the lifetime expected credit losses. For trade receivables, we apply the simplified approach permitted by IFRS 9 (as defined below), which requires lifetime expected losses to be recognized from the initial recognition of such trade receivables. The expected credit risk of trade receivables is measured using the probability that a default may occur calculated based on our historical experiences relating to cash collection from our trade receivables. In calculating expected credit losses, we consider a variety of forward-looking information, including external credit ratings, actual or expected significant adverse changes in business, financial or economic conditions that may cause a significant change to a borrower's ability to perform its obligations and actual or expected significant changes in the operating results of the customer or the counterparty.

IFRS 9 *Financial Instruments* ("IFRS 9"), issued by the IASB in July 2014, is a new IFRS accounting standard aimed at improving and simplifying the accounting treatment of financial instruments and is effective for annual periods beginning on or after January 1, 2018. IFRS 9, which replaces IAS 39, *Financial Instruments: Recognition and Measurement*, requires all financial assets to be classified and measured on the basis of an entity's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. A new impairment model is introduced which requires recording of allowance for credit losses based on expected losses instead of incurred losses, and recognition of any subsequent changes in expected credit losses in profit or loss. The impact on our financial statements due to the application of IFRS 9 depends on judgments made by us in applying the new standard, the nature of financial instruments held by us and macroeconomic variables. We have applied IFRS 9 retrospectively and have determined not to restate the comparative information for periods prior to 2018. For additional information regarding IFRS 9, see Note 3(30) of the notes to our annual consolidated financial statements.

#### ***Fair Value for Financial Instruments***

We hold various financial instruments. Depending on the accounting treatment specific to each type of financial instrument, an estimate of fair value is required to record the instrument on our consolidated financial statements. Financial assets and financial liabilities held by us are measured at the following fair values:

- quoted prices in active markets for identical assets or liabilities;
- fair value calculated using observable inputs other than quoted prices for the assets or liabilities, either directly or indirectly; and
- fair value calculated using valuation techniques incorporating unobservable inputs.

In particular, the fair value estimates using valuation techniques that incorporate unobservable inputs are based on the judgment and assumptions of our management, such as experience assumptions, and the use of specific numerical calculation models, such as discounted cash flow models. We base our fair value estimates on assumptions we believe to be reasonable, but which are unpredictable and inherently uncertain. The use of alternative estimates and assumptions could increase or decrease the estimated fair values of our investments and potentially impact our results of operations.

#### ***Provisions***

We recognize asset retirement obligations related to assets leased under operating leases in our consolidated statement of financial position. These provisions are recognized based on our management's best estimates of the expenses expected to be incurred for the restoration of the operating lease properties to the state as specified in the rental agreements upon termination of the operating leases. The estimation takes risks and uncertainty related to the obligations into account as of the fiscal year end date, and the estimates are evaluated on an annual basis.



We also record provision for the licensing royalty fees payable to third-party platform partners related to future redemption of virtual credits to purchase virtual items by our users. The provision is estimated using user trends, past experiences, and our management's assumptions related to our business. Historically, our expenses have been within expectations and in line with the provision established. However, unforeseen circumstances such as adverse market conditions that deviate significantly from our estimates may require us to change the timing of our provisions or make additional provisions. In this case, our results of operations and financial condition could be materially and adversely affected.

### ***Defined Benefit Plans***

We offer employees in Korea, Taiwan and Thailand defined benefit plans and defined contribution plans. The specific features of these plans vary depending on the applicable laws and regulations in each country where the employees work. The majority of our defined benefit obligation consists of the unfunded defined benefits plans for employees of our subsidiaries located in Korea. Such plans include lump sum payments and other post-employment benefits for the board of directors and employees with a service period of over one year. Expenses related to defined benefit plans were ¥1,747 million, ¥2,141 million and ¥2,180 million in 2016, 2017 and 2018, respectively, and we recorded liabilities for defined benefit obligations of ¥6,204 million, ¥6,189 million and ¥7,210 million as of December 31, 2016, 2017 and 2018, respectively. The cost of the defined benefit plans and the present value of the obligations are determined using actuarial valuations. An actuarial valuation involves making various assumptions that are reviewed at each reporting date, including the determination of the discount rate and future salary increases.

We used the following assumptions to calculate our expenses related to defined benefit plans for the years indicated.

	December 31,		
	2016	2017	2018
Discount rate . . . . .	3.4%	3.2%-3.7%	2.5%-3.5%
Weighted average of future salary increases . . . . .	8.6%-11.3%	4.5%-7.7%	5.3%-7.1%

We determine the discount rate based on market returns of high-quality corporate bonds consistent with currencies and estimated payment terms applicable to the defined benefit obligations as of the reporting date in order to calculate present value of the defined benefit obligations. Estimated future salary increases are based on historical salary increases and expected future inflation rates. The plans expose us to actuarial risks, including interest rate risk, salary increase risk and longevity risk. Due to the complexities involved in the valuation and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. If the discount rate or rate of future salary increases had been 100 basis points higher or lower with all other variables held constant, the impact on our defined benefit obligations for 2018 would have been as follows:

	For the year ended December 31, 2018			
	Discount rate		Salary increase rate	
	100 basis points increase	100 basis points decrease	100 basis points increase	100 basis points decrease
	(in millions of yen)			
Impact on defined benefit obligations . . . . .	¥(833)	¥1,020	¥970	¥(812)

### **Recently Issued Accounting Standards**

IFRS 16 *Leases* ("IFRS 16"), issued by the IASB, governs the accounting for leases and related contractual rights and obligations. We will adopt IFRS 16 for annual reporting periods beginning on January 1, 2019, the mandatory effective date. We intend to use a simplified approach in adopting IFRS 16 and do not plan to restate the amounts for the annual periods prior to such adoption. For our assessment of the financial impact of IFRS 16 on our consolidated financial statements, see Note 3(29) of the notes to our annual consolidated financial statements.

For a discussion of additional new standards, interpretations and amendments to IFRS, see Note 3(29) and Note 3(30) of the notes to our annual consolidated financial statements.

**Item 5.C. *Research and Development, Patents and Licenses, Etc.***

We maintain a research and development program to carry out basic research and technology development activities. See “Item 4.B. Business Overview — Technology.”

Our success depends in part on our ability to protect our core technology and intellectual property. To establish and protect our proprietary rights, we rely on a combination of patents, trademarks, copyrights, trade secrets (including know-how), license agreements, confidentiality procedures, non-disclosure agreements with third parties, employee disclosure and invention assignment agreements, and other contractual and implicit rights worldwide. We also enter into confidentiality and invention assignment agreements with our employees, contractors and platform partners, and we control access to our proprietary technology and information. Our patents are mainly related to social networking, user interface, telecommunications, image processing and web technologies but not limited to these technologies. Despite our efforts to protect our proprietary technology and information through these efforts, unauthorized parties may still copy or otherwise obtain and misuse our intellectual property.

Companies in the internet, technology, telecommunications and media industries own large numbers of patents, copyrights, trademarks, and trade secrets and frequently enter into litigation based on allegations of infringement, misappropriation or other violations of intellectual property or other rights. From time to time, we face, and we expect to face in the future, allegations that we have infringed the patents, trademarks, copyrights, trade secrets and other intellectual property rights of third parties, including our competitors and non-practicing entities. These infringement, data misappropriation, tort and other intellectual property issues apply to myriad third-party rights and contents material to our business, and we seek, but cannot guarantee, extensive licenses to such requisite third-party rights. As we face increasing competition and as our business grows, we will likely face more claims of infringement.

**Item 5.D. *Trend Information***

These matters are discussed under Item 5.A. and Item 5.B. above where relevant.

**Item 5.E. *Off-Balance Sheet Arrangements***

As of December 31, 2017 and 2018, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

**Item 5.F. *Tabular Disclosure of Contractual Obligations***

See “Item 5.B. Liquidity and Capital Resources — Contractual Obligations and Commitments.”

**Item 5.G. *Safe Harbor***

See “Forward-Looking Statements.”

**Item 6. Directors, Senior Management and Employees**

**Item 6.A. Directors and Senior Management**

**Directors and Corporate Auditors**

The following table sets forth information regarding members of our board of directors and board of corporate auditors as of the date of this annual report. The business address of all of such members is JR Shinjuku Miraina Tower, 23rd Floor, 4-1-6 Shinjuku, Shinjuku-ku, Tokyo, 160-0022, Japan.

<u>Name</u>	<u>Age</u>	<u>Position/Title</u>
Takeshi Idezawa . . . . .	45	Representative Director, President and Chief Executive Officer
Jun Masuda . . . . .	41	Director and Chief Strategy & Marketing Officer
Jungho Shin . . . . .	47	Director and Chief WOW Officer
In Joon Hwang . . . . .	53	Director and Chief Financial Officer
Hae Jin Lee . . . . .	51	Chairman of the Board of Directors
Tadashi Kunihiro . . . . .	63	Outside Director
Koji Kotaka . . . . .	60	Outside Director
Rehito Hatoyama . . . . .	45	Outside Director
Hitoshi Kurasawa . . . . .	68	Corporate Auditor
Yoichi Namekata . . . . .	50	Corporate Auditor
Noriyuki Uematsu . . . . .	58	Corporate Auditor

**Takeshi Idezawa.** Mr. Idezawa has served as our representative director since April 2014 and as president and chief executive officer since April 2015. He currently serves as a representative director of LINE Book Distribution Corporation and LINE Digital Frontier. Previously, he served as our chief operating officer and as a representative director and president of livedoor Co., Ltd., our subsidiary, where he served in various roles after joining the company in June 2002. Mr. Idezawa received a B.A. in political science and economics from Waseda University.

**Jun Masuda.** Mr. Masuda has served as a director since March 2015 and chief strategy and marketing officer since April 2014. Mr. Masuda currently serves as a representative director of LINE Ventures Corporation, LINE MUSIC Corporation, LINE TICKET Corporation and LINE CONOMI Corporation. Mr. Masuda also serves as a director of Yume no Machi Souzou Inkai Co., Ltd. Previously, he served as a senior officer and chief strategy and marketing officer of NHN Japan Corporation. Prior to joining our company in October 2008, he served as a director and vice president of product at Baidu Japan Inc.

**Jungho Shin.** Mr. Shin has served as a director since January 2012 and as our chief WOW officer since February 2019. On March 28, 2019, our board of directors resolved to appoint Mr. Shin as a co-representative director effective April 1, 2019. He served as our chief global officer from April 2014 to March 2018 and chief service officer and from April 2018 to January 2019. He has served as a representative director of LINE Plus Corporation since March 2013. Previously, he served as an outside director at livedoor Co., Ltd., our subsidiary. From June 2005 to April 2013, Mr. Shin served in several roles at NAVER Corporation, including as head of Japan services. Mr. Shin received a B.S. and an M.S. in computer science from Korea Advanced Institute of Science and Technology.

**In Joon Hwang.** Mr. Hwang has served as a director since December 2008 and as our chief financial officer since April 2015. He currently serves as a representative director of LINE Ventures Corporation. Previously, Mr. Hwang served in several roles at NAVER Corporation, including as chief financial officer from November 2008 to January 2016. Prior to joining NAVER Corporation, Mr. Hwang served in several roles at Woori Investment & Securities Co., Ltd., Woori Finance Holdings Co., Ltd., Samsung Securities Co., Ltd.,

Credit Suisse and Samsung Electronics Co., Ltd. Mr. Hwang received a B.S. in economics from Seoul National University and an M.B.A. from New York University.

**Hae Jin Lee.** Mr. Lee has served as a director since November 2005 and as the chairman of our board of directors since January 2012. Mr. Lee also serves as the global investment officer of NAVER Corporation. Mr. Lee co-founded NAVER Corporation in June 1999 and served as chairman of the board of NAVER Corporation until March 2017. Prior to co-founding NAVER Corporation, from February 1992 to June 1999, Mr. Lee served in several roles at Samsung SDS Co., Ltd., an information technology services provider. Mr. Lee received a B.S. in computer science from Seoul National University and an M.S. in computer science from Korea Advanced Institute of Science and Technology.

**Tadashi Kunihiro.** Mr. Kunihiro has served as an outside director since October 2015. Mr. Kunihiro is an attorney in Japan and currently serves as an outside director of Tokio Marine & Nichido Fire Insurance Co., Ltd., an outside auditor of Mitsubishi Corporation and an outside auditor of OMRON Corporation. From June 2006 to June 2014, he also served as an outside auditor of Sekisui Chemical Co., Ltd. Mr. Kunihiro received an L.L.B. from the University of Tokyo.

**Koji Kotaka.** Mr. Kotaka has served as an outside director since February 2016. Mr. Kotaka is an attorney in Japan and currently serves as an outside director of Kenedix, Inc. and Musca Inc. and the representative of Apollo Management Japan Limited. Previously, he held positions at Nishimura & Asahi, Goldman Sachs Japan Co., Ltd., Sato and Tsuda Law Office and Legal Research and Training Institute of the Supreme Court of Japan. Mr. Kotaka received an LL.B. from Keio University and an LL.M. from University of Chicago Law School.

**Rehito Hatoyama.** Mr. Hatoyama has served as an outside director since March 2016. Mr. Hatoyama is currently the representative director of Hatoyama Research Institute, Ltd. and also serves as an outside director of Pigeon Corporation, transcocosmos inc. and Mythical Games Inc. Previously, he held positions at Sanrio Company, Ltd. and Mitsubishi Corporation. Mr. Hatoyama received a B.A. from Aoyama Gakuin University and an M.B.A. from Harvard Business School.

**Hitoshi Kurasawa.** Mr. Kurasawa has served as our full-time corporate auditor since April 2013. Previously, Mr. Kurasawa served as a director at Hanno Golf Club Co., Ltd. From February 2000 to June 2011, Mr. Kurasawa served in several roles at Gurunavi, Inc., an online restaurants information provider, including as a corporate auditor, director and executive vice president. From July 1987 to January 2005, Mr. Kurasawa served in several roles at NKB System Kaihatsu Co., Ltd., a computer system developer, including as a director. Mr. Kurasawa received a B.S. in industrial engineering and management from Tokyo Institute of Technology.

**Yoichi Namekata.** Mr. Namekata has served as our corporate auditor since March 2019. Mr. Namekata is the representative attorney of NAMEKATA International Law Office. He currently serves as an outside auditor of Suruga Bank Ltd. Mr. Namekata has previously held positions at Blakemore & Mitsuki, Baker & McKenzie, NIIMURA SOGO LAW OFFICE and the Inspection Bureau of the FSA. Mr. Namekata received a bachelor's degree in international relations law from Sophia University.

**Noriyuki Uematsu.** Mr. Uematsu has served as our corporate auditor since March 2019. Mr. Uematsu is a certified public accountant in Japan and currently serves as a director of Uematsu Certified Public Accountants Office and as the representative director of SU Consultant Co. Ltd. He also serves as an outside director and auditor of Kamakura Shinsho, Ltd. and Astellas Pharma Inc. Mr. Uematsu has previously held positions at DENTSU INC. and Deloitte Tohmatsu Consulting Co., Ltd. Mr. Uematsu received a B.A. in economics from Keio University.

Some of our directors concurrently serve in senior positions at certain of our affiliates or other companies with which we have ordinary course business agreements and engage in ordinary course business transactions.

## Executive Officers

The following table sets forth information regarding our senior management, consisting of the officers identified below (“executive officers”), as of the date of this annual report. The business address of all of our executive officers is JR Shinjuku Miraina Tower, 23rd Floor, 4-1-6 Shinjuku, Shinjuku-ku, Tokyo, 160-0022, Japan.

<u>Executive Officers</u>	<u>Age</u>	<u>Position/Title</u>
Takeshi Idezawa .....	45	Representative Director, President and Chief Executive Officer
Jun Masuda .....	41	Director and Chief Strategy & Marketing Officer
Jungho Shin .....	47	Director and Chief WOW Officer
In Joon Hwang .....	53	Director and Chief Financial Officer
Euibin Park .....	44	Chief Technology Officer
Tomohiro Ikebe .....	42	Head of Services Development
Seokho Yang .....	41	Head of LINE Development Department 1 and Director of Blockchain Lab
Youngsu Ko .....	42	Head of Fintech Business
Takeshi Shimamura .....	42	Head of Portal and Media Business
Ayumi Inagaki .....	36	Head of LINE Planning

**Euibin Park.** Ms. Park has served as chief technology officer since April 2014. She has served as head of our Web Services Development Group since June 2013. From June 2005 to April 2013, Ms. Park served in several roles at NAVER Corporation and its affiliated companies, primarily in Japan-related businesses. Prior to joining NAVER Corporation in June 2005, Ms. Park served in several roles at Neowiz Games Corporation, NOWCOM Co., Ltd. and Sotek Inc. Ms. Park received a B.S. in information and communications from Chonbuk National University.

**Tomohiro Ikebe.** Mr. Ikebe has served as head of Services Development since April 2014. He currently serves as a representative director of LINE Growth Technology. Previously, he served in several roles at DataHotel Co., Ltd., our subsidiary, after joining the company in October 2001, including as executive officer in charge of business development.

**Seokho Yang.** Mr. Yang has served as head of LINE Development Department 1 since June 2013. He currently serves as the director of Blockchain Lab. Previously, he served in several development-related roles at NHN Japan Corporation, NAVER Japan Corporation and NHN Corporation. Mr. Yang received a B.S. in computer science from Korea Advanced Institute of Science and Technology.

**Youngsu Ko.** Mr. Ko has served as head of Fintech Business since February 2019. He has served in several other leadership roles, including as project manager of LINE Messenger Service, since joining our company in March 2013. Previously, he served in several roles at NAVER Corporation, primarily in its Japan-related businesses.

**Takeshi Shimamura.** Mr. Shimamura has served as head of Portal and Media Business since April 2014. He currently serves as a representative director of Next Library Corporation. Since joining our company from Rakuten, Inc. in July 2004, Mr. Shimamura has served in several roles at our company, including as head of service planning. Mr. Shimamura received a B.A. in history from Komazawa University.

**Ayumi Inagaki.** Ms. Inagaki has served as head of LINE Planning since June 2015. She currently serves as head of service planning of LINE Financial. Previously, she served in several roles at NeoWiz Japan Corporation, NEOLAB Co., Ltd. and Baidu, Inc. Ms. Inagaki received a B.A. in social science from Hitotsubashi University.

## Item 6.B. Compensation

In accordance with the Companies Act, compensation for our directors and corporate auditors, including bonuses, retirement allowances and incentive stock options, must be approved at our general meeting of shareholders, unless otherwise specified in our articles of incorporation. The shareholders' approval may specify the upper limit of the aggregate amount of compensation or calculation methods, but if compensation includes benefits in kind, the shareholders' approval must include the description of such benefits. Compensation for a director or corporate auditor is fixed by our board of directors or by consultation among our corporate auditors in accordance with our internal regulations and practice and, in the case of retirement allowances, generally reflects the position of the director or corporate auditor at the time of retirement, length of service as a director or corporate auditor and contribution to our performance. Our board of directors is also supported by a compensation committee. See "Item 6.C. Board Practices — Committees of the Board of Directors."

The following table summarizes the total compensation paid, including in-kind benefits granted, to our directors and corporate auditors in 2018:

	Total amount (in millions of yen)	By type (in millions of yen)				Number of persons
		Base salary	Stock options	Bonuses	Retirement allowances	
Directors <sup>(1)</sup> . . . . .	1,467	373	780	271	43	5
Outside directors . . . . .	45	45	—	—	—	3
Corporate auditors <sup>(2)</sup> . . . . .	2	2	—	—	—	1
Outside corporate auditors . . . . .	13	13	—	—	—	3

(1) Excludes outside directors.

(2) Excludes outside corporate auditors.

The following table summarizes the compensation paid, including in-kind benefits granted, by LINE Corporation and its consolidated subsidiaries to our directors or corporate auditors, on an individual basis, in an amount equal to or exceeding ¥100 million for 2018:

Name	Position/Title	Company	Type and amount (in millions of yen)				Total (in millions of yen)
			Base salary	Stock options <sup>(1)</sup>	Bonuses	Retirement allowances <sup>(2)</sup>	
Jungho Shin	Director	LINE Corporation	8	371	—	—	589 <sup>(3)</sup>
	Director	LINE Plus Corporation	97	—	79	34	
In Joon Hwang	Director	LINE Corporation	47	74	10	—	218 <sup>(4)</sup>
	Director	LINE Plus Corporation	23	—	55	9	
Takeshi Idezawa	Director	LINE Corporation	80	186	49	—	315
Jun Masuda	Director	LINE Corporation	66	149	42	—	257

(1) Amounts account for expenses applicable to stock options granted in 2015, 2017 and 2018.

(2) Amounts include retirement allowances set aside for Mr. Jungho Shin and Mr. In Joon Hwang by LINE Plus Corporation pursuant to its internal policy.

(3) Amount includes compensation paid to Mr. Jungho Shin by LINE Corporation and LINE Plus Corporation.

(4) Amount includes compensation paid to Mr. In Joon Hwang by LINE Corporation and LINE Plus Corporation.

Pursuant to a resolution of our board of directors on February 26, 2019, we will be adopting a new share-based compensation plan, which envisions the grant of approximately 3.6% of our outstanding common shares per year over a three-year period (for a total of approximately 10.8% of our outstanding common shares), with the exact timing of the grant to be determined at a later date, to our directors, executive officers and employees in the form of stock options or other share-based compensation, as applicable. At the ordinary general meeting of shareholders held on March 28, 2019, our shareholders approved the grant of stock options as compensation to our directors (including outside directors). The exercise price of the stock options shall be

105.0% of the average market price of our common stock on the Tokyo Stock Exchange for the month preceding the date of the grant of the stock options, unless such exercise price is lower than the market price on the date of the grant, in which case the exercise price shall be the market price on such date. An increasing percentage of stock options granted shall be exercisable from the third, fourth or fifth anniversary of the date of the grant, as applicable, to the tenth anniversary thereof. The stock options granted to our directors who are not outside directors shall only be exercisable upon the satisfaction of certain conditions related to the price of our shares of common stock at the time specified under our new share-based compensation plan. See Note 32 of the notes to our annual consolidated financial statements.

We do not separately set aside any amounts for pension, retirement or other benefits for our directors, corporate auditors or executive officers other than for our subsidiaries in Korea where we are legally required to do so.

We do not have any loans or credits outstanding to any of our directors, corporate auditors or executive officers, and we do not have any guarantees outstanding for borrowings by any of our directors, corporate auditors or executive officers.

We have obtained directors' and officers' liability insurance which insures against certain liabilities that our directors and officers may, in such capacities, incur.

For further details on our stock options, see "Item 6.E. Share Ownership."

#### **Item 6.C. Board Practices**

##### **Board of Directors**

Our board of directors has the ultimate responsibility for the administration of our affairs. Our articles of incorporation provide for not fewer than three but not more than eight directors. Directors are typically nominated at the board level and are elected at general meetings of shareholders. The normal term of office of any director expires at the close of the ordinary general meeting of shareholders held with respect to the last fiscal year ended within two years after such director's election to office. Our directors may, however, serve any number of consecutive terms.

The board of directors appoints from among its members one or more representative directors, who have the authority individually to represent us in the conduct of our affairs. The board of directors may appoint from among its members a chairman, a president or one or more deputy presidents, senior managing directors and managing directors. We have three outside directors who satisfy the requirements for an outside director under the Companies Act.

None of the members of our board of directors is party to a service contract with us or any of our subsidiaries that provides for benefits upon termination of service.

##### **Board of Corporate Auditors**

Our corporate auditors constitute a board of corporate auditors. As permitted under the Companies Act, we have elected to structure our corporate governance system as a company with a separate board of corporate auditors instead of board committees. Our articles of incorporation provide for not more than five corporate auditors. Corporate auditors are typically nominated at the board level and are elected at general meetings of shareholders. The normal term of office of any corporate auditor expires at the close of the ordinary general meeting of shareholders held with respect to the last fiscal year ended within four years after such corporate auditor's election to office. Our corporate auditors may, however, serve any number of consecutive terms. Corporate auditors may be removed by a special resolution of a general meeting of shareholders.

Our corporate auditors are not required to be certified public accountants. Our corporate auditors may not at the same time be directors, employees or accounting advisors (*kaikei sanyo*) of us or any of our subsidiaries or corporate officers of our subsidiaries. Under the Companies Act, at least one-half of them must be persons who satisfy the requirements for an outside corporate auditor under the Companies Act, and at least one of the corporate auditors must be a full-time corporate auditor.

The function of our board of corporate auditors and each corporate auditor is similar to that of independent directors, including those who are members of the audit committee, of a U.S. company. Each corporate auditor has a statutory duty to supervise the administration by the directors of our affairs, to examine the financial statements and business reports to be submitted by a representative director at the general meetings of shareholders and to prepare an audit report. They are obligated to participate in meetings of the board of directors and, if necessary, to express their opinion at such meetings, but are not entitled to vote. The board of corporate auditors has a statutory duty to prepare an audit report based on the audit reports issued by the individual corporate auditors and submit such audit reports to a relevant director and, in the case of audit reports related to financial statements, independent certified public accountants each year. Each corporate auditor may note an opinion in an audit report issued by the board of corporate auditors, if the opinion expressed in such corporate auditor's individual audit report is different from the opinion expressed in the audit report issued by the board of corporate auditors. The board of corporate auditors is empowered to establish the audit principles, the method of examination by the corporate auditors of our affairs and financial position and any other matters relating to the performance of the corporate auditors' duties.

In addition to our corporate auditors, we must appoint independent certified public accountants. Such independent certified public accountants have the statutory duties of examining the financial statements to be submitted by a representative director at the general meetings of shareholders and reporting their opinion thereon to the relevant corporate auditors and directors. The independent certified public accountants also audit the financial statements to be included in the securities reports that are required to be filed with the director of the relevant local finance bureau of the Ministry of Finance. PricewaterhouseCoopers Aarata LLC acts as our independent certified public accountant beginning January 1, 2015.

In addition, under the Securities Listing Regulations of the Tokyo Stock Exchange, listed companies in Japan are required to have at least one independent officer (an "Independent Officer"). For details on the requirements for an Independent Officer, see "Item 16G. Corporate Governance." Such Independent Officer is required to be an outside director or an outside corporate auditor (as defined under the Companies Act) who is unlikely to have any conflicts of interest with shareholders. The Securities Listing Regulations also require listed companies to make efforts to have at least one director who meets the requirements for an Independent Officer (such director, an "Independent Director"). Further, a listed company that does not have two or more Independent Directors is required to publicly explain the reason. As of December 31, 2018, we six Independent Officers, including three Independent Directors.

### **Committees of the Board of Directors**

Under the Companies Act, we have elected to structure our corporate governance system as a company with a separate board of corporate auditors and therefore do not have an audit committee. For foreign private issuers, use of a board of corporate auditors in compliance with home country rules is permitted under Rule 10A-3(c)(3) of the Exchange Act, and as such we are not required to and do not intend to form an audit committee. Our board of corporate auditors is a legally separate and independent body from our board of directors. We do not have certain committees that are required of U.S. listed companies subject to the New York Stock Exchange corporate governance standards, including those that are responsible for director nomination and corporate governance and executive compensation.

Our board of directors is supported by a management committee to facilitate timely decision-making with respect to important administration and management issues. The management committee is composed of



members appointed by the President. Currently, the management committee consists of the Chief Executive Officer, Chief WOW Officer, Chief Strategy & Marketing Officer, Chief Privacy Officer/Chief Information Security Officer, certain senior officers in charge of finance and accounting, human resources and internal audit and a full-time corporate auditor. The management committee engages in discussion of various items to be resolved by, or reported to, the board of directors, and considers important administration and management issues in accordance with the basic strategies and policies set by the board of directors.

Our board of directors is also supported by a compensation committee to facilitate independent, objective and transparent decision-making with respect to compensation of our directors. The compensation committee is composed of a majority of outside directors, one of whom must serve as the chair of the committee, and currently consists of Mr. Takeshi Idezawa, Mr. Hae Jin Lee, Mr. Tadashi Kunihiro, Mr. Koji Kotaka and Mr. Rehitō Hatoyama. The compensation committee is responsible for deliberating the overall compensation scheme for our directors, assessing the criteria for evaluating their performance and implementing such criteria to decide the compensation for each director, as well as advising or making recommendations to the board of directors on such matters.

### **Limitation of Liability of Directors and Corporate Auditors**

Under the Companies Act and our articles of incorporation we may exempt, by resolution of the board of directors, our directors and corporate auditors from liabilities to us arising in connection with their failure to execute their duties in good faith and without gross negligence, within the limits stipulated by applicable laws and regulations. In addition, our articles of incorporation provide that we may enter into agreements with our directors (excluding executive directors) and corporate auditors to limit their respective liabilities to us arising in connection with a failure to execute their duties in good faith and without gross negligence to the higher of either a predetermined amount which shall be no less than ¥10 million or an amount stipulated in laws and regulations. We have entered into a liability limitation agreement with each outside director and outside corporate auditor which limits the maximum amount of their liability to the higher of either ¥10 million or an amount stipulated in laws and regulations.

### **Item 6.D. Employees**

Our employees are critical to our success. We seek employees who are motivated to develop new products and services for our rapidly growing user base around the world as well as for our platform partners and advertisers. A vast majority of our new hires have prior experience in the internet or mobile services or related industries, and we strive to hire and retain employees with diverse backgrounds in addition to relevant work experience in order to achieve our objective to continue to grow globally.

On a consolidated basis, we had 3,085, 4,344 and 5,595 full-time employees as of December 31, 2016, 2017 and 2018, respectively. From time to time, we also employ contract-based or part-time employees to enhance operational efficiency. As of December 31, 2018, we had 1,922 temporary employees. The following table sets forth a breakdown of our full-time employees by location as of December 31, 2018:

Location	Number of full-time employees
Japan .....	2,404
Outside Japan .....	3,191
Total .....	5,595

Compensation for our full-time employees consists of a combination of annual base salary, bonuses and share-based compensation. Pursuant to the approval of our board of directors on June 26, 2017, we introduced equity-settled and cash-settled employee stock ownership plans in recognition of our employees' contribution to

our growth and to further encourage improvement in medium- to long-term business performance and to grant beneficiary rights to certain of our employees and those of our subsidiaries in 2017. As of December 31, 2018, our equity-settled and cash-settled employee stock ownership plans held 1,979,775 shares of our common stock as treasury shares, which are granted from time to time as shares or cash (after sale of the underlying shares by the trust) as part of our share-based payments to our employees. See Note 27 of the notes to our annual consolidated financial statements. We also operate employee share incentive plans to encourage wider equity participation among our employees. Pursuant to our new share-based compensation plan to be adopted in 2019, we plan to grant stock options or other share-based compensation to all of our employees, which we believe would create a strong incentive for them to further promote medium- to long-term growth of our corporate and shareholder values. See “Item 6.B. Compensation.”

We also provide a wide range of benefits to our employees. We believe our compensation and benefit plans are competitive within our industry. Our employees in Japan are not unionized, and we consider our current relations with our employees to be good.

### Item 6.E. *Share Ownership*

#### Common Stock

As of December 31, 2018, none of the shares of our common stock entitles the holder to any preferential voting rights. The persons who are currently our directors, corporate auditors and executive officers held, as a group, 9,393,014 common shares as of December 31, 2018, the most recent practicable date for which this information is available. The table below shows the ownership of our common shares by our directors, corporate auditors and executive officers.

Name	Number of Common Shares	Percentage of Outstanding Common Shares
Jungho Shin .....	4,760,500	2.0%
Hae Jin Lee .....	4,594,000	1.9%
Takeshi Idezawa .....	30,000	*
Jun Masuda .....	5,000	*
Koji Kotaka .....	2,500	*
Tadashi Kunihiro .....	676	*
Rehito Hatoyama .....	338	*
Total .....	9,393,014	3.9%

\* Less than 1%.

#### Stock Options

We have granted stock options to purchase shares of our common stock in the form of stock acquisition rights pursuant to the Companies Act. The purpose of these grants is to enable our directors and employees, including our executive officers, to share in our successes and to reinforce a corporate culture that aligns employee interests with those of our shareholders. References in this annual report to “stock options” are references to stock acquisition rights to purchase shares of our common stock, unless otherwise indicated. For more information regarding stock options granted by us, see Note 27 of the notes to our annual consolidated financial statements.

Our stock options granted during 2015 may be exercised during an eight-year period that begins two years from the date of grant, whereas our stock options granted during 2017 may be exercised for a period of six years that begins four years from the date of grant. Our stock option grants generally do not allow for the transfer or assignment of options. An option holder who retires while one’s options are still exercisable loses such

options, unless otherwise approved by our board of directors. In the event of a stock split, reverse stock split or issuance of new shares or disposal of treasury shares at below market price, the exercise price of and, in certain cases, the number of shares subject to outstanding options, will be proportionately adjusted.

The following table summarizes the stock options with respect to our common stock owned by our directors, corporate auditors and executive officers as of December 31, 2018:

Name	Grant Date	Exercise period		Exercise price (per share)	Number of options granted	Number of options exercised	Number of exercisable options
		From	To				
Jungho Shin	December 17, 2012	December 18, 2014	December 17, 2022	¥ 344	6,790,000	6,790,000	—
	February 4, 2015	February 4, 2017	February 3, 2025	1,320	3,474,500	3,474,500	—
	July 18, 2017	July 18, 2021	July 18, 2027	4,206	601,000	—	601,000
Hae Jin Lee	December 17, 2012	December 18, 2014	December 17, 2022	344	5,572,000	5,572,000	—
Takeshi Idezawa	December 16, 2013	December 17, 2015	December 16, 2023	344	52,500	52,500	—
	February 4, 2015	February 4, 2017	February 3, 2025	1,320	44,000	20,000	24,000
	July 18, 2017	July 18, 2021	July 18, 2027	4,206	300,500	—	300,500
Jun Masuda	December 16, 2013	December 17, 2015	December 16, 2023	344	63,000	5,000	58,000
	February 4, 2015	February 4, 2017	February 3, 2025	1,320	31,500	—	31,500
	July 18, 2017	July 18, 2021	July 18, 2027	4,206	240,400	—	240,400
In Joon Hwang	July 18, 2017	July 18, 2021	July 18, 2027	4,206	120,200	—	120,200

For a description of additional stock options to be granted to our directors, and stock options or other share-based compensation to be awarded to our executive officers and employees, see “Item 6.B. Compensation” and “Item 6.D. Employees,” respectively.

## Item 7. Major Shareholders and Related Party Transactions

### Item 7.A. Major Shareholders

The table below sets forth certain information relating to the shareholders of our common stock outstanding as of December 31, 2018, based on information known to us or can be ascertained from public filings:

Name of shareholder	Number of shares owned	Percentage of outstanding shares
NAVER Corporation <sup>(1)</sup>	174,992,000	72.8%

(1) Prior to our IPO in July 2016, in which we issued 40,250,000 shares of common stock (including over-allotments), NAVER Corporation owned 100.0% of the outstanding shares of our common stock.

Under the FIEA, any person who solely or jointly owns more than 5% of the total issued voting shares of a company listed on a Japanese stock exchange must file a report concerning the shareholding with the director of the relevant local finance bureau. Major shareholders have the same voting rights per share as all other holders of common stock.

As of December 31, 2018, there were 240,524,642 shares of common stock outstanding. Of the total outstanding shares, 6,904,120 shares were held in the form of American Depositary Receipts (“ADRs”) and the number of registered ADR holders was nine. As of December 31, 2018, 9,743,386 shares were held of record in the form of common stock by residents in the United States and the number of registered holders of our common stock in the United States was 97.

NAVER Corporation, which has 174,992,000 shares or 72.8% of the voting power of our outstanding capital stock as of December 31, 2018, has the ability to control the outcome of matters submitted to our shareholders for approval. To our knowledge, there are no arrangements the operation of which may, at a subsequent date, result in a change in control of us.

## **Item 7.B. Related Party Transactions**

### **NAVER Corporation**

#### ***Issuance of Shares***

On May 25, 2012, we issued 87,369 shares of our common stock to NAVER Corporation for ¥15,000 million. As of December 31, 2018, NAVER Corporation held a 72.8% voting interest in us.

#### ***Allotment of Convertible Bonds***

On September 20, 2018, we issued zero coupon convertible bonds due 2023 and 2025 in the aggregate principal amount of approximately ¥73.2 billion, half of the total aggregate principal amount of the Convertible Bonds we issued, to NAVER Corporation. See “Item 5.B. Liquidity and Capital Resources — Liquidity and Capital Resources — Cash Flows — Net Cash Provided by Financing Activities.” The zero coupon convertible bonds are convertible into shares of our common stock at an initial conversion price per share of ¥7,467 for the convertible bonds due 2023 and ¥7,518 for the convertible bonds due 2025.

#### ***Directors and Senior Management***

Mr. Hae Jin Lee, who currently serves as a director and chairman of our board of directors, also serves as an executive officer of NAVER Corporation.

#### ***Personnel***

From time to time we have transfers or secondments of employees from NAVER Corporation and our affiliates, the related personnel expenses of which are borne by us. Some of our directors, corporate auditors and executive officers concurrently serve in senior positions at certain of our affiliates with which we have ordinary course business agreements and engage in ordinary course business transactions.

#### ***Advertising Service***

On January 1, 2014, LINE Plus Corporation, our wholly-owned subsidiary, entered into a service partnership agreement with NAVER Corporation to provide NAVER Corporation with advertising services via the LINE platform and the right to use certain LINE characters in NAVER Corporation’s advertising activities in exchange for advertising services to be provided to LINE Plus Corporation via NAVER Corporation’s portal website, NAVER. We recognized net revenue receivable from NAVER Corporation of ¥663 million in 2018 and recorded ¥184 million of outstanding receivables balance from NAVER Corporation as of December 31, 2018.

#### ***Joint Development of LINE Clova***

On July 6, 2017, we entered into a business cooperation agreement with NAVER Corporation to establish the terms and conditions of the joint development and operation of the LINE Clova AI platform as well as the distribution, marketing and promotion of related products. Pursuant to this agreement, we and NAVER Corporation hold joint and equal ownership over all intellectual property jointly developed relating to the LINE Clova AI platform and bear an equal amount of costs incurred during such development. In the event that revenues and expenses arise from the distribution and sale of the products and services jointly developed by us and NAVER Corporation, each party recognizes its own revenues and expenses arising from such activities.

## **NAVER Business Platform Corporation**

### ***Data Hosting Services***

On December 20, 2010, we entered into a data hosting agreement with NAVER Business Platform Corporation, pursuant to which NAVER Business Platform Corporation provides data hosting services to us. The agreement was superseded by an information technology service agreement with NAVER Business Platform Corporation dated April 1, 2013. For such services, we recognized expenses payable to NAVER Business Platform Corporation of ¥8,566 million in 2018 and recorded ¥883 million of outstanding expenses payable balance to NAVER Business Platform Corporation as of December 31, 2018.

### **Snow Corporation**

In May 2017, we transferred our camera application business, including B612 and LINE Camera, which was operated by our wholly-owned subsidiary LINE Plus Corporation, to Snow Corporation, a subsidiary of NAVER Corporation and developer and operator of the selfie app SNOW. In exchange for the transfer of business, LINE Plus Corporation received 208,455 newly issued common shares of Snow Corporation, which amounted to ¥10,651 million representing the fair value of such newly issued common shares on the date of the transaction. Currently, our interest in Snow Corporation is 34.0% and the remaining interest is owned by NAVER Corporation.

For further details on related party transactions, see Note 28 of the notes to our annual consolidated financial statements.

As of December 31, 2018, we had no loans outstanding to our directors, corporate auditors or executive officers.

### **Item 7.C. *Interests of Experts and Counsel***

Not applicable

### **Item 8. *Financial Information***

#### **Item 8.A. *Consolidated Statements and Other Financial Information***

See “Item 18. Financial Statements” and pages F-1 through F-136 for our annual consolidated financial statements.

### **Legal Proceedings**

We are involved in, and may in the future be involved in, legal proceedings, claims and government investigations in the ordinary course of business, including intellectual property infringement claims. In addition, the nature of our business exposes us to claims related to defamation, rights of publicity and privacy and personal injury torts resulting from information that is published or made available on the LINE platform. This risk is enhanced in certain jurisdictions outside Japan where our protection from liability for content published on our platform by third parties may be unclear and where we may be less protected under local laws than we are in Japan. Our licenses and best practices may not reduce or eliminate such risks.

### **Dividend Distribution Policy**

Since our inception, we have not declared or paid cash dividends on shares of our common stock. Any decision to pay dividends in the future will be subject to a number of factors, including our financial condition,

results of operations, the level of our retained earnings, capital demands, general business conditions and other factors our board of directors may deem relevant. We currently intend to retain any future earnings and do not expect to pay any dividends in the foreseeable future. Consequently, we cannot give any assurance that any dividends may be declared and paid in the future.

If declared, holders of outstanding shares of our capital stock on a dividend record date will be entitled to the full dividend declared without regard to the date of issuance of the shares or any subsequent transfer of the shares. Payment of declared annual dividends in respect of a particular year, if any, will be made in the following year after approval by our shareholders at the ordinary general meeting of shareholders, subject to certain provisions of our articles of incorporation and the Companies Act.

Subject to the terms of the deposit agreement for the ADSs, holders of ADSs will be entitled to receive dividends on shares of our common stock represented by ADSs to the same extent as the holders of shares of our common stock, less the fees and expenses payable under the deposit agreement in respect of, and any Japanese tax applicable to, such dividends. The depositary will generally convert the Japanese yen it receives into U.S. dollars and distribute the U.S. dollar amounts to holders of ADSs. Cash dividends on shares of our common stock, if any, will be paid in Japanese yen.

**Item 8.B. *Significant Changes***

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our annual consolidated financial statements included in this annual report.

**Item 9. *The Offer and Listing***

**Item 9.A. *Offer and Listing Details***

Our common stock, with no par value per share, has been listed on the First Section of the Tokyo Stock Exchange since July 15, 2016 under the securities identification code 3938. Our ADSs, each representing one share of our common stock and evidenced by ADRs, are listed on the New York Stock Exchange under the ticker symbol “LN.”

**Item 9.B. *Plan of Distribution***

Not applicable

**Item 9.C. *Markets***

Please refer to “Item 9.A. Offer and Listing Details.”

**Item 9.D. *Selling Shareholders***

Not applicable

**Item 9.E. *Dilution***

Not applicable

**Item 9.F. *Expenses of the Issue***

Not applicable

## **Item 10. Additional Information**

### **Item 10.A. Share Capital**

Not applicable

### **Item 10.B. Memorandum and Articles of Association**

We are a joint-stock corporation incorporated in Japan under the Companies Act. Under Article 2 of our articles of incorporation, filed as Exhibit 1.1 to this annual report, the purpose of the Company, among others, is to engage in the electronic communication business, as well as the planning, design, development, operation, provision and rental of software that utilizes telecommunication networks and electronic technologies. The rights of our shareholders are represented by shares of our common stock as described below, and shareholders' liability is limited to the amount of subscription for such shares. As of December 31, 2018, our authorized share capital consisted of 690,000,000 shares of common stock of which 240,524,642 shares were issued and outstanding.

#### ***Board of Directors***

Under the Companies Act, a resolution of a meeting of the board of directors requires the majority vote of the directors present at the meeting, and a majority of the board of directors constitutes a quorum. As part of the application of general conflict of interest provisions, a director who has a special interest in the proposal presented at the meeting may not exercise his or her vote and such director is excluded for purposes of determining a quorum and adopting a resolution.

#### ***Book-Entry Transfer System***

The Japanese book-entry transfer system for listed shares of Japanese companies under the Book-Entry Act apply to the shares of our common stock. Under this system, shares of all Japanese companies listed on any Japanese stock exchange are dematerialized. Under the book-entry transfer system, in order for any person to hold, sell or otherwise dispose of listed shares of Japanese companies, they must have an account at an account management institution unless such person has an account at JASDEC. "Account management institutions" are financial instruments business operators (i.e., securities firms), banks, trust companies and certain other financial institutions that meet the requirements prescribed by the Book-Entry Act, and only those financial institutions that meet the further stringent requirements of the Book-Entry Act can open accounts directly at JASDEC.

The following description of the book-entry transfer system assumes that the relevant person has no account at JASDEC.

Under the Book-Entry Act, any transfer of shares is effected through book-entry, and the title to the shares passes to the transferee at the time when the transferred number of shares is recorded in the transferee's account at an account management institution. The holder of an account at an account management institution is presumed to be the legal owner of the shares held in such account.

Under the Companies Act, in order to assert shareholders' rights against us, the transferee must have its name and address registered in the register of our shareholders, except in limited circumstances. Under the book-entry transfer system, such registration is generally made upon receipt of an all shareholders notice (as described in "— Register of Shareholders") from JASDEC. For this purpose, shareholders are required to file their names and addresses with our transfer agent through the account management institution and JASDEC. See "— Register of Shareholders" for more information.

Non-resident shareholders are required to appoint a standing proxy in Japan or provide a mailing address in Japan. Each such shareholder must give notice of their standing proxy or a mailing address to the

relevant account management institution. Such notice will be forwarded to our transfer agent through JASDEC. Japanese securities firms and commercial banks customarily act as standing proxies and provide related services for standard fees. Notices from us to non-resident shareholders are delivered to the standing proxies or mailing addresses.

### ***Register of Shareholders***

Under the book-entry transfer system, the registration of names, addresses and other information of shareholders in the register of our shareholders will be made by us upon the receipt of an all shareholders notice (*soukabunushi tsuchi*) (with the exception that in the event of the issuance of new shares, we will register the names, addresses and other information of our shareholders in the register of our shareholders without an all shareholders notice from JASDEC) given to us by JASDEC, which will give us such all shareholders notice based on information provided by the account management institutions. Such all shareholders notice will be made only in cases prescribed under the Book-Entry Act such as when we fix the record date and when we make a request to JASDEC with any justifiable reason. Therefore, a shareholder may not assert shareholders' rights against us immediately after such shareholder acquires our shares, unless such shareholder's name and address are registered in the register of our shareholders upon our receipt of an all shareholders notice; provided, however, that, in respect of the exercise of rights of minority shareholders as defined in the Book-Entry Act, a shareholder may exercise such rights upon giving us an individual shareholder notice (*kobetsukabunushi tsuchi*) through JASDEC only during a certain period prescribed under the Book-Entry Act.

### ***Distribution of Surplus***

Under the Companies Act, the distribution of dividends takes the form of distribution of Surplus, and a distribution of Surplus may be made in cash and/or in kind, with no restrictions on the timing and frequency of such distributions. The Companies Act generally requires a joint-stock corporation to make distributions of Surplus authorized by a resolution of a general meeting of shareholders. Distributions of Surplus are, however, permitted pursuant to a resolution of the board of directors if:

- (a) the Company's articles of incorporation so provide (our articles of incorporation do not have provisions to this effect);
- (b) the normal term of office of directors is no longer than one year (our articles of incorporation do not have provisions to this effect); and
- (c) the Company's non-consolidated annual financial statements and certain documents for the latest fiscal year fairly present its assets and profit or loss, as required by the ordinances of the Ministry of Justice.

In an exception to the above rule, even if the requirements described in (a) through (c) are not met, the Company may be permitted to make distributions of Surplus in cash to its shareholders by resolution of the board of directors once per fiscal year if its articles of incorporation so provide. Our articles of incorporation provide for distributions of Surplus in cash by resolution of the board of directors as interim dividends, the record date for which is June 30 of each year.

A resolution of a general meeting of shareholders authorizing a distribution of Surplus must specify the kind and aggregate book value of the assets to be distributed, the manner of allocation of such assets to shareholders and the effective date of the distribution. If a distribution of Surplus is to be made in kind, we may, pursuant to a resolution of a general meeting of shareholders, grant a right to the shareholders to require us to make such distribution in cash instead of in kind. If no such right is granted to shareholders, the relevant distribution of Surplus must be approved by a special resolution of a general meeting of shareholders. See "— Voting Rights" for more details regarding a special resolution. Our articles of incorporation provide that we are relieved of our obligation to pay any distributions in cash that go unclaimed for three years after the date they first become payable.



## **Restriction on Distribution of Surplus**

Under the Companies Act, we may distribute Surplus up to the excess of the aggregate of (a) and (b) below, less the aggregate of (c) through (f) below, as of the effective date of such distribution, if our net assets are not less than ¥3,000,000:

- (a) the amount of Surplus, as described below;
- (b) in the event that extraordinary financial statements as of, or for a period from the beginning of the fiscal year to, the specified date are approved, the aggregate amount of (i) the aggregate amount as provided for by an ordinance of the Ministry of Justice as the net income for such period described in the statement of income constituting the extraordinary financial statements, and (ii) the amount of consideration that we received for the treasury stock that we disposed of during such period;
- (c) the book value of our treasury stock;
- (d) in the event that we disposed of treasury stock after the end of the previous fiscal year, the amount of consideration that we received for such treasury stock;
- (e) in the event described in (b) in this paragraph, the aggregate amount as provided for by an ordinance of the Ministry of Justice as the net loss for such period described in the statement of income constituting the extraordinary financial statements; and
- (f) certain other amounts set forth in the ordinances of the Ministry of Justice, including (if the sum of one-half of goodwill and the deferred assets exceeds the total of share capital, additional paid-in capital and legal earnings reserve, each such amount as it appears on the balance sheet as of the end of the previous fiscal year) all or a certain part of such excess amount as calculated in accordance with the ordinances of the Ministry of Justice.

For the purposes of this section, the amount of “Surplus” is the excess of the aggregate of (I) through (IV) below, less the aggregate of (V) through (VII) below:

- (I) the aggregate of other capital surplus and other retained earnings at the end of the previous fiscal year;
- (II) in the event that we disposed of treasury stock after the end of the previous fiscal year, the difference between the book value of such treasury stock and the consideration that we received for such treasury stock;
- (III) in the event that we reduced our share capital after the end of the previous fiscal year, the amount of such reduction less the portion thereof that has been transferred to additional paid-in capital and/or legal earnings reserve (if any);
- (IV) in the event that we reduced additional paid-in capital and/or legal earnings reserve after the end of the previous fiscal year, the amount of such reduction less the portion thereof that has been transferred to share capital (if any);
- (V) in the event that we cancelled treasury stock after the end of the previous fiscal year, the book value of such treasury stock;

(VI) in the event that we distributed Surplus after the end of the previous fiscal year, the aggregate of the following amounts:

- (1) the aggregate amount of the book value of the distributed assets, excluding the book value of such assets that would be distributed to shareholders but for their exercise of the right to receive dividends in cash instead of dividends in kind;
- (2) the aggregate amount of cash distributed to shareholders who exercised the right to receive dividends in cash instead of dividends in kind; and
- (3) the aggregate amount of cash paid to shareholders holding fewer shares than the shares that were required in order to receive dividends in kind;

(VII) the aggregate amounts of (1) through (4) below, less (5) and (6) below:

- (1) in the event that the amount of Surplus was reduced and transferred to additional paid-in capital, legal earnings reserve and/or share capital after the end of the previous fiscal year, the amount so transferred;
- (2) in the event that we distributed Surplus after the end of the previous fiscal year, the amount set aside in additional paid-in capital and/or legal earnings reserve;
- (3) in the event that we disposed of treasury stock in the process of (x) a merger in which we acquired all rights and obligations of a company, (y) a corporate split in which we acquired all or a part of the rights and obligations of a split company or (z) a share exchange (*kabushiki kokan*) in which we acquired all shares of a company after the end of the previous fiscal year, the difference between the book value of such treasury stock and the consideration that we received for such treasury stock;
- (4) in the event that the amount of Surplus was reduced in the process of a corporate split in which we transferred all or a part of our rights and obligations after the end of the previous fiscal year, the amount so reduced;
- (5) in the event of (x) a merger in which we acquired all rights and obligations of a company, (y) a corporate split in which we acquired all or a part of the rights and obligations of a split company or (z) a share exchange in which we acquired all shares of a company after the end of the previous fiscal year, the aggregate amount of (i) the amount of the other capital surplus after such merger, corporate split or share exchange, less the amount of other capital surplus before such merger, corporate split or share exchange, and (ii) the amount of the other retained earnings after such merger, corporate split or share exchange, less the amount of other retained earnings before such merger, corporate split or share exchange; and
- (6) in the event that an obligation to cover a deficiency, such as the obligation of a person who subscribed newly issued shares with an unfair amount to be paid in, was fulfilled after the end of the previous fiscal year, the amount of other capital surplus increased by such payment.

In Japan, the “ex-dividend” date and the record date for any distribution of Surplus come before the date a company determines the amount of distribution of Surplus to be paid.

For information as to Japanese taxes on dividends, please refer to “Item 10.E. Taxation — Japanese Taxation.”

## **Capital and Reserves**

Under the Companies Act, the paid-in amount of any newly-issued shares of stock is required to be accounted for as share capital, although we may account for an amount not exceeding one-half of such paid-in amount as additional paid-in capital. We may generally reduce additional paid-in capital and/or legal earnings reserve by resolution of a general meeting of shareholders, subject to completion of protection procedures for creditors in accordance with the Companies Act, and, if so decided by the same resolution, we may account for the whole or any part of the amount of such reduction as share capital. We may generally reduce share capital by a special resolution of a general meeting of shareholders and, if so decided by the same resolution, we may account for the whole or any part of the amount of such reduction as additional paid-in capital.

## **Stock Splits**

Under the Companies Act, we may at any time split shares in issue into a greater number of the same class of shares by a resolution of the board of directors. When a stock split is to be made, we must give public notice of the stock split, specifying the record date therefor, at least two weeks prior to such record date.

Under the book-entry transfer system, on the effective date of the stock split, the numbers of shares recorded in all accounts held by our shareholders at account management institutions will be increased in accordance with the applicable ratio.

## **Gratuitous Allocations**

Under the Companies Act, we may allot any class of shares to our existing shareholders without any additional contribution by resolution of the board of directors; provided that although our treasury stock may be allotted to our shareholders, any allotment of shares will not accrue to shares of our treasury stock.

When a gratuitous allocation is to be made and we set a record date therefor, we must give public notice of the gratuitous allocation, specifying the record date therefor, at least two weeks prior to the record date.

Under the book-entry transfer system, on the effective date of the gratuitous allocation, the number of shares of our common stock recorded in accounts held by our shareholders at account management institutions will be increased in accordance with a notice from us to JASDEC.

## **Reverse Stock Split**

Under the Companies Act, we may at any time consolidate our shares into a smaller number of shares by a special resolution of the general meeting of shareholders. We must disclose the reason for the reverse stock split at the general meeting of shareholders. When a reverse stock split is to be made, we must give public notice of the reverse stock split, at least two weeks (or, in certain cases where any fractions of shares are left as a result of a reverse stock split, 20 days) prior to the effective date of the reverse stock split.

Under the book-entry transfer system, on the effective date of the reverse stock split, the numbers of shares recorded in all accounts held by our shareholders at account management institutions will be decreased in accordance with the applicable ratio.

## **Unit Share System**

### ***General***

Our articles of incorporation provide that 100 shares constitute one “unit” of common stock. Our board of directors is permitted to reduce the number of shares that will constitute one unit or to abolish the unit share system entirely by amending our articles of incorporation, without shareholders’ approval, with public notice without delay after the effective date of such amendment.

### ***Transferability of Shares Constituting Less Than One Unit***

Under the book-entry transfer system, shares constituting less than one unit are transferable. Under the rules of the Japanese stock exchanges, however, shares constituting less than one unit do not comprise a trading unit, except in limited circumstances, and accordingly may not be sold on the Japanese stock exchanges.

### ***Voting Rights of a Holder of Shares Constituting Less Than One Unit***

A holder of shares constituting less than one unit cannot exercise any voting rights pertaining to those shares. In calculating the quorum for various voting purposes, the aggregate number of shares constituting less than one unit will be excluded from the number of outstanding shares. A holder of shares representing one or more whole units will have one vote for each whole unit represented.

A holder of shares constituting less than one unit does not have any rights related to voting, such as the right to participate in a demand for the resignation of a director, the right to participate in a request for the convocation of a general meeting of shareholders and the right to join with other shareholders to propose a matter to be included in the agenda of a general meeting of shareholders.

In accordance with the Companies Act, our articles of incorporation provide that a holder of shares constituting less than one unit does not have any other rights of a shareholder in respect of those shares, other than those provided by our articles of incorporation, including the following rights:

- to receive dividends;
- to receive cash or other assets in case of a reverse stock split or stock split, share exchange, share transfer or merger;
- to be allotted rights to subscribe for free for new shares and stock acquisition rights when such rights are granted to shareholders; or
- to participate in any distribution of surplus assets upon liquidation.

### ***Rights of a Holder of Shares Constituting Less Than One Unit to Require Us to Purchase Shares and to Sell Shares***

Under the Companies Act, a holder of shares constituting less than one full unit may at any time request that we purchase such shares. In addition, our articles of incorporation provide that, pursuant to our share handling regulations, a holder of shares constituting less than one full unit has the right to request that we sell to such holder such number of shares constituting less than one full unit which, when added to the shares constituting less than one full unit currently owned by such holder, will constitute one full unit.

Under the book-entry system, such a request must be made to us through the relevant account managing institution. The price at which shares of common stock constituting less than one unit will be purchased or sold by us pursuant to such a request will be equal to (a) the closing price of shares of our common stock reported by the Tokyo Stock Exchange on the day when the request is received by our transfer agent or (b) if no sale takes place on the Tokyo Stock Exchange on that day, the price at which the sale of shares of our common stock is executed on such stock exchange immediately thereafter.

### **General Meeting of Shareholders**

Our ordinary general meeting of shareholders is usually held every March in Tokyo, Japan. The record date for an ordinary general meeting of shareholders is December 31 of each year. In addition, we may hold an extraordinary general meeting of shareholders whenever necessary by giving at least two weeks' advance notice to shareholders.

Notice of convocation of a general meeting of shareholders setting forth the time, place, purpose thereof and certain other matters set forth in the Companies Act and relevant ordinances must be mailed to each shareholder having voting rights (or, in the case of a non-resident shareholder, to his or her standing proxy or mailing address in Japan) at least two weeks prior to the date set for such meeting. Such notice may be given to shareholders by electronic means, subject to the consent of the relevant shareholders.

Any shareholder or group of shareholders holding at least 3% of the total number of voting rights for a period of six months or more may require, with an individual shareholder notice (as described in “— Register of Shareholders”), the convocation of a general meeting of shareholders for a particular purpose. Unless such general meeting of shareholders is convened without delay or a convocation notice of a meeting which is to be held not later than eight weeks from the day of such demand is dispatched, the requiring shareholder may, upon obtaining a court approval, convene such general meeting of shareholders.

Any shareholder or group of shareholders holding at least 300 voting rights or 1% of the total number of voting rights for a period of six months or more may propose a matter to be included in the agenda of a general meeting of shareholders, and may propose to describe such matter together with a summary of the proposal to be submitted by such shareholder in a notice to our shareholders, by submitting a request to a director at least eight weeks prior to the date set for such meeting, with an individual shareholder notice.

The Companies Act enables a company to amend its articles of incorporation in order to loosen the requirements for the number of shares held and shareholding period, as well as the period required for dispatching a convocation notice or submission of requests, all of which are required for any shareholder or group of shareholders to request the convocation of a general meeting of shareholders or to propose a matter to be included in the agenda of a general meeting of shareholders. Our articles of incorporation do not provide for loosening such requirements.

## **Voting Rights**

A shareholder of record is entitled to one vote per unit (100 shares) of common stock, except that neither we nor any corporation, partnership or other similar entity in which we hold, directly or indirectly, 25% or more of the voting rights shall exercise any voting rights in respect of shares held by us or such entity, as the case may be. Except as otherwise provided by law or by our articles of incorporation, a resolution can be adopted at a general meeting of shareholders by a majority of the voting rights represented at the meeting. Shareholders may also exercise their voting rights through proxies, provided that the proxy is granted to one of our shareholders having voting rights. The Companies Act and our articles of incorporation provide that the quorum for the election of directors and corporate auditors is one-third of the total number of voting rights. Our articles of incorporation provide that the shares may not be voted cumulatively for the election of directors.

The Companies Act provides that a special resolution of the general meeting of shareholders is required for certain significant corporate transactions, including:

- any amendment to our articles of incorporation (except for amendments that may be authorized solely by the board of directors under the Companies Act);
- a reduction of share capital, subject to certain exceptions under which a shareholders’ resolution is not required, such as a reduction of share capital for the purpose of replenishing capital deficiencies;
- transfer of the whole or a part of our equity interests in any of our subsidiaries, subject to certain exceptions under which a shareholders’ resolution is not required;
- a dissolution, merger or consolidation, subject to certain exceptions under which a shareholders’ resolution is not required;

- the transfer of the whole or a substantial part of our business, subject to certain exceptions under which a shareholders' resolution is not required;
- the taking over of the whole of the business of any other corporation, subject to certain exceptions under which a shareholders' resolution is not required;
- a corporate split, subject to certain exceptions under which a shareholders' resolution is not required;
- share exchange (*kabushiki kokan*) or share transfer (*kabushiki iten*) for the purpose of establishing 100% parent-subsidiary relationships, subject to certain exceptions under which a shareholders' resolution is not required;
- any issuance of new shares or transfer of existing shares held by us as treasury stock at a "specially favorable" price and any issuance of stock acquisition rights or bonds with stock acquisition rights at a "specially favorable" price or in a "specially favorable" condition to any persons other than shareholders;
- any acquisition by us of our own shares from specific persons other than our subsidiaries (if any);
- reverse stock split; or
- the removal of a corporate auditor.

Except as otherwise provided by law or in our articles of incorporation, a special resolution of the general meeting of shareholders requires the approval of the holders of at least two-thirds of the voting rights of all shareholders present or represented at a meeting where a quorum is present. Our articles of incorporation provide that a quorum exists when a majority of the total number of voting rights is present or represented.

### **Liquidation Rights**

If we are liquidated, the assets remaining after payment of all taxes, liquidation expenses and debts will be distributed among shareholders in proportion to the number of shares they hold.

### **Rights to Allotment of Shares**

Holders of shares of our common stock have no pre-emptive rights. Authorized but unissued shares may be issued at the times and on the terms as the board of directors determines, so long as the limitations with respect to the issuance of new shares at "specially favorable" prices (as described in "— Voting Rights") are observed. Our board of directors may, however, determine that shareholders shall be given rights to allotment regarding a particular issue of new shares, in which case such rights must be given on uniform terms to all holders of the shares as of a record date for which not less than two weeks' prior public notice must be given. Each shareholder to whom such rights are given must also be given notice of the expiration date thereof at least two weeks prior to the date on which such rights expire. The rights to allotment of new shares may not be transferred. However, the Companies Act enables us to allot stock acquisition rights to shareholders without consideration therefor, and such stock acquisition rights are transferable. See "— Stock Acquisition Rights" below.

In cases where a particular issuance of new shares (i) violates laws and regulations or our articles of incorporation, or (ii) will be performed in a manner materially unfair, and shareholders may suffer disadvantages therefrom, such shareholders may file an injunction with a court of law to enjoin such issuance.

## **Stock Acquisition Rights**

Subject to certain conditions and to the limitations on issuances at a “specially favorable” price or on “specially favorable” conditions described in “— Voting Rights,” we may issue stock acquisition rights (*shinkabu yoyakuken*) and bonds with stock acquisition rights (*shinkabu yoyakuken-tsuki shasai*) by a resolution of the board of directors. Holders of stock acquisition rights may exercise their rights to acquire a certain number of shares within the exercise period as set forth in the terms of their stock acquisition rights. Upon exercise of stock acquisition rights, we will be obligated either to issue the relevant number of new shares or, alternatively, to transfer the necessary number of shares of treasury stock held by us.

## **Record Date**

The record date for annual dividends and the determination of shareholders entitled to vote at the ordinary general meeting of our shareholders is December 31.

In addition, by a resolution of the board of directors, we may set a record date for determining the shareholders entitled to other rights and for other purposes by giving at least two weeks’ prior public notice.

Under the rules of JASDEC, we are required to give notice of each record date to JASDEC promptly after the resolution of the board of directors determining such record date. JASDEC is required to promptly give us notice of the names and addresses of the holders of shares of our common stock, the number of shares of our common stock held by them and other relevant information as at each record date.

## **Purchase of Our Own Shares**

Under the Companies Act, we may acquire our own shares:

- by purchase on any stock exchange on which our shares are listed or by way of tender offer, pursuant to a resolution of our board of directors subject to certain requirements;
- by purchase from a specific party other than any of our subsidiaries, pursuant to a special resolution of a general meeting of shareholders; and
- by purchase from any of our subsidiaries, pursuant to a resolution of the board of directors.

If we acquire our own shares from a specific party other than any of our subsidiaries as specified above at a price higher than the greater of (i) (a) the closing price of the shares at the market trading such shares on the day immediately preceding the day on which the relevant special resolution of a general meeting of shareholders is made or (b) if no sale takes place at such market on that day, the price at which the sale of the shares is effected on such market immediately thereafter and (ii) in the event that such shares are subject to a tender offer, the price set in the contract regarding such tender offer on that day, shareholders may request that we include him or her as the seller of his or her shares in the proposed purchase. Any such acquisition of shares must satisfy certain requirements, such as that we may only acquire our own shares in an aggregate amount up to the amount that we may distribute as Surplus. See “— Distribution of Surplus” above for more details regarding this amount.

Our own shares acquired by us may be held by us as treasury stock for any period or may be cancelled by resolution of the board of directors. We may also transfer the shares held by us to any person, subject to a resolution of the board of directors, and subject also to other requirements similar to those applicable to the issuance of new shares, as described in “— Rights to Allotment of Shares” above. We may also utilize our treasury stock (x) for the purpose of transfer to any person upon exercise of stock acquisition rights or (y) for the purpose of acquiring another company by way of merger, share exchange, or corporate split through exchange of treasury stock for shares or assets of the acquired company.

### **Request by Controlling Shareholder to Sell All Shares**

Under the Companies Act and our articles of incorporation, in general, a shareholder holding 98% or more of our voting rights, directly or through wholly-owned subsidiaries, shall have the right to request that all other shareholders (and all other holders of stock acquisition rights, as the case may be) sell all shares (and all stock acquisition rights, as the case may be) held by them with our approval, which must be made by a resolution of the board of directors (*kabushiki tou uriwatashi seikyu*, or a “Share Sales Request”). In order to make a Share Sales Request, such controlling shareholder will be required to issue a prior notice to us. If we approve such Share Sales Request, we will be required to make a public notice to all holders and registered pledgees of shares (and stock acquisition rights, as the case may be) not later than 20 days before the effective date of such sales.

### **Sale by Us of Shares Held by Shareholders Whose Addresses Are Unknown**

Under the Companies Act, we are not required to send a notice to a shareholder if notices to such shareholder fail to arrive for a continuous period of five or more years at the registered address of such shareholder in the register of our shareholders or at the address otherwise notified to us.

In addition, we may sell or otherwise dispose of the shares held by a shareholder whose location is unknown. Generally, if

- notices to a shareholder fail to arrive for a continuous period of five or more years at the shareholder’s registered address in the register of our shareholders or at the address otherwise notified to us, and
- the shareholder fails to receive distribution of Surplus on the shares for a continuous period of five or more years at the address registered in the register of our shareholders or at the address otherwise notified to us,

we may sell or otherwise dispose of the shareholder’s shares at the market price after giving at least three months’ prior public and individual notices, and hold or deposit the proceeds of such sale or disposal for the shareholder.

### **Reporting of Substantial Shareholdings**

The FIEA and its related regulations require any person who has become beneficially, solely or jointly, a holder of more than 5% of total issued shares of our common stock, to file with the director of a relevant local finance bureau of the Ministry of Finance within five business days a report concerning such shareholdings. With certain exceptions, a similar report must also be filed in respect of any subsequent change of 1% or more in any such holdings or any change in material matters set out in reports previously filed. For this purpose, shares of our common stock issuable to such person upon exchange of exchangeable securities, conversion of convertible securities or exercise of warrants or stock acquisition rights (including those incorporated in bonds with stock acquisition rights) are taken into account in determining both the number of our shares held by the holder and our total issued share capital.

#### **Item 10.C. *Material Contracts***

For the two years immediately preceding the date of this annual report, we have not been a party to any material agreements other than in the ordinary course of business.

#### **Item 10.D. *Exchange Controls***

The Foreign Exchange and Foreign Trade Act of Japan (*Gaikoku Kawase oyobi Gaikoku Boueki Hou*) and related cabinet orders and ministerial ordinances, which we refer to collectively as the Foreign Exchange



Regulations, govern certain aspects relating to the acquisition and holding of shares by “exchange non-residents” and by “foreign investors” (as these terms are defined below). It also applies in some cases to the acquisition and holding of ADSs representing shares of our common stock acquired and held by non-residents of Japan and by foreign investors. In general, the Foreign Exchange Regulations currently in effect do not affect transactions between exchange non-residents to purchase or sell shares or ADSs outside Japan using currencies other than Japanese yen.

Exchange residents are defined in the Foreign Exchange Regulations as:

- (i) individuals who reside within Japan; or
- (ii) corporations whose principal offices are located within Japan.

Exchange non-residents are defined in the Foreign Exchange Regulations as:

- (i) individuals who do not reside in Japan; or
- (ii) corporations whose principal offices are located outside Japan.

Generally, branches and other offices of non-resident corporations located within Japan are regarded as exchange residents. Conversely, branches and other offices of Japanese corporations located outside Japan are regarded as exchange non-residents.

Foreign investors are defined in the Foreign Exchange Regulations as:

- (i) individuals who do not reside in Japan;
- (ii) corporations or other entities organized under the laws of foreign countries or whose principal offices are located outside Japan;
- (iii) corporations of which 50% or more of the total voting rights are held, directly or indirectly, by individuals and/or corporations falling within (i) and/or (ii) above; or
- (iv) corporations or other entities having a majority of either (A) directors or other persons equivalent thereto or (B) directors or other persons equivalent thereto having the power of representation who are non-resident individuals.

### **Acquisition of Shares**

Acquisition by an exchange non-resident of shares of a Japanese corporation from an exchange resident requires post facto reporting by the exchange resident to the Minister of Finance of Japan through the Bank of Japan. No such reporting requirement is imposed, however, if:

- (i) the aggregate purchase price of the relevant shares is ¥100 million or less;
- (ii) the acquisition is effected through any bank, financial instruments business operator or other entity prescribed by the Foreign Exchange Regulations acting as an agent or intermediary; or
- (iii) the acquisition constitutes an “inward direct investment” described below.

### **Inward Direct Investment in Shares of Listed Corporations**

If a foreign investor acquires shares of a Japanese company that is listed on a Japanese stock exchange, such as the shares of our common stock, or that is traded on an over-the-counter market in Japan and, as a result

of the acquisition, the foreign investor, in combination with any existing holdings, directly or indirectly holds 10% or more of the issued shares of the relevant company, such acquisition constitutes an “inward direct investment” and the foreign investor in general must file a report of the acquisition with the Minister of Finance and any other competent Ministers having jurisdiction over that Japanese company by the 15th day of the month immediately following the month to which the date of such acquisition belongs. In limited circumstances, such as where the foreign investor is in a country that is not listed on an exemption schedule in the Foreign Exchange Regulations, or where that Japanese company is engaged in certain businesses designated by the Foreign Exchange Regulations, a prior notification of the acquisition must be filed with the Minister of Finance and any other competent Ministers, who may then modify or prohibit the proposed acquisition.

Acquisition of shares by foreign investors by way of stock split is not subject to any of the foregoing notification or reporting requirements.

### **Dividends and Proceeds of Sale**

Under the Foreign Exchange Regulations, dividends paid on, and the proceeds from sales in Japan of, shares held by exchange non-residents of Japan may generally be converted into any foreign currency and repatriated abroad.

### **Item 10.E. Taxation**

#### **Japanese Taxation**

The following is a general summary of the principal Japanese tax consequences (limited to national tax) to owners of shares of our common stock, in the form of shares or ADSs, who are non-resident individuals of Japan or who are non-Japanese corporations without a permanent establishment in Japan, collectively referred to in this section as non-resident holders. The statements below regarding Japanese tax laws are based on the laws and treaties in force and as interpreted by the Japanese tax authorities as of the date of this annual report, and are subject to changes in applicable Japanese laws, tax treaties, conventions or agreements, or in the interpretation of them, occurring after that date. This summary is not exhaustive of all possible tax considerations that may apply to a particular investor, and potential investors are advised to satisfy themselves as to the overall tax consequences of the acquisition, ownership and disposition of shares of our common stock, including, specifically, the tax consequences under Japanese law, under the laws of the jurisdiction of which they are resident and under any tax treaty, convention or agreement between Japan and their country of residence, by consulting their own tax advisors.

For the purpose of Japanese tax law and the tax treaty between the United States and Japan, a U.S. holder of ADSs will generally be treated as the owner of the shares underlying the ADSs evidenced by the ADRs.

Generally, a non-resident holder of shares or ADSs will be subject to Japanese income tax collected by way of withholding on dividends (meaning in this section distributions made from our retained earnings for the Companies Act purposes) we pay with respect to shares of our common stock and such tax will be withheld prior to payment of dividends. Stock splits generally are not subject to Japanese income or corporation taxes.

In the absence of any applicable tax treaty, convention or agreement reducing the maximum rate of Japanese withholding tax or allowing exemption from Japanese withholding tax, the rate of the Japanese withholding tax applicable to dividends paid by Japanese corporations on their shares of stock to non-resident holders is generally 20.42% (or 20% for dividends due and payable on or after January 1, 2038) under Japanese tax law. However, with respect to dividends paid on listed shares issued by a Japanese corporation (such as shares or ADSs) to non-resident holders, other than any individual shareholder who holds 3% or more of the total number of shares issued by the relevant Japanese corporation (to whom the aforementioned withholding tax rate will still apply), the aforementioned withholding tax rate is reduced to (i) 15.315% for dividends due and payable

up to and including December 31, 2037 and (ii) 15% for dividends due and payable on or after January 1, 2038. The withholding tax rates described above include the special reconstruction surtax (2.1% multiplied by the original applicable withholding tax rate, i.e., 15% or 20%, as the case may be), which is imposed during the period from and including January 1, 2013 to and including December 31, 2037, to fund the reconstruction from the Great East Japan Earthquake.

If distributions were made from our capital surplus, rather than retained earnings, for the Companies Act purposes, the portion of such distributions in excess of the amount corresponding to a pro rata portion of return of capital as determined under Japanese tax laws would be deemed dividends for Japanese tax purposes, while the rest would be treated as return of capital for Japanese tax purposes. The deemed dividend portion, if any, would generally be subject to the same tax treatment as dividends as described above, and the return of capital portion would generally be treated as proceeds derived from the sale of shares and subject to the same tax treatment as sale of shares of our common stock as described below. Distributions made in consideration of repurchase by us of our own shares or in connection with certain reorganization transactions will be treated substantially in the same manner.

Japan has income tax treaties whereby the withholding tax rate (including the special reconstruction surtax) may be reduced, generally to 15%, for portfolio investors, with, among others, Canada, Denmark, Finland, Germany, Ireland, Italy, Luxembourg, New Zealand, Norway, Singapore and Spain, while the income tax treaties with, among others, Australia, Belgium, France, Hong Kong, the Netherlands, Portugal, Sweden, Switzerland, the United Arab Emirates, the United Kingdom and the United States generally reduce the withholding tax rate to 10% for portfolio investors. In addition, under the income tax treaty between Japan and the United States, dividends paid to pension funds which are qualified U.S. residents eligible to enjoy treaty benefits are exempt from Japanese income taxation by way of withholding or otherwise unless the dividends are derived from the carrying on of a business, directly or indirectly, by the pension funds. Similar treatment is applicable to dividends paid to pension funds under the income tax treaties between Japan and the Netherlands, Switzerland and the United Kingdom. Under Japanese tax law, any reduced maximum rate applicable under a tax treaty shall be available when such maximum rate is below the rate otherwise applicable under the Japanese tax law referred to in the second preceding paragraph with respect to the dividends to be paid by us on our shares or ADSs.

Non-resident holders of our shares who are entitled under an applicable tax treaty to a reduced rate of, or exemption from, Japanese withholding tax on any dividends on our shares, in general, are required to submit, through the withholding agent to the relevant tax authority prior to the payment of dividends, an Application Form for Income Tax Convention regarding Relief from Japanese Income Tax and Special Income Tax for Reconstruction on Dividends together with any required forms and documents. A standing proxy for a non-resident holder of shares of our common stock or ADSs may be used in order to submit the application on a non-resident holder's behalf. In this regard, a certain simplified special filing procedure is available for non-resident holders to claim treaty benefits of reduction of or exemption from Japanese withholding tax, by submitting a Special Application Form for Income Tax Convention regarding Relief from Japanese Income Tax and Special Income Tax for Reconstruction on Dividends of Listed Stock, together with any required forms or documents. If the depositary needs investigation to identify whether any non-resident holders of ADSs are entitled to claim treaty benefits of exemption from or reduction of Japanese withholding tax the depositary or its agent submits an application form before payment of dividends so that the withholding cannot be made in connection with such holders for eight months after the record date concerning such payment of dividends. If it is proved that such holders are entitled to claim treaty benefits of exemption from or reduction of Japanese withholding tax within the foregoing eight-month period, the depositary or its agent submits another application form together with certain other documents so that such holder can be subject to exemption from or reduction of Japanese withholding tax. To claim this reduced rate or exemption, such non-resident holder of ADSs will be required to file a proof of taxpayer status, residence and beneficial ownership, as applicable, and to provide other information or documents as may be required by the depositary. Non-resident holders who are entitled, under any applicable tax treaty, to a reduced rate of Japanese withholding tax below the rate otherwise applicable under

Japanese tax law, or exemption therefrom, as the case may be, but fail to submit the required application in advance may nevertheless be entitled to claim a refund from the relevant Japanese tax authority of withholding taxes withheld in excess of the rate under an applicable tax treaty (if such non-resident holders are entitled to a reduced treaty rate under the applicable tax treaty) or the full amount of tax withheld (if such non-resident holders are entitled to an exemption under the applicable tax treaty), as the case may be, by complying with a certain subsequent filing procedure. We do not assume any responsibility to ensure withholding at the reduced treaty rate, or exemption therefrom, for shareholders who would be eligible under an applicable tax treaty but who do not follow the required procedures as stated above.

Gains derived from the sale of our shares or ADSs outside Japan by a non-resident holder that is a portfolio investor will generally not be subject to Japanese income or corporation taxes. Japanese inheritance and gift taxes, at progressive rates, may be payable by an individual who has acquired from another individual our shares or ADSs as a legatee, heir or donee, even if none of the acquiring individual, the decedent or the donor is a Japanese resident.

### **United States Federal Income Taxation**

The following discussion is a summary of the material U.S. federal income tax consequences of the acquisition, ownership and disposition of shares of our common stock or ADSs, based on the Internal Revenue Code of 1986, as amended (the “Code”), U.S. Treasury regulations promulgated thereunder, published administrative interpretations of the U.S. Internal Revenue Service (“IRS”), judicial decisions and the income tax treaty between the United States and Japan (the “Tax Convention”), all of which are subject to differing interpretations and to change, possibly with retroactive effect. This summary does not purport to be a comprehensive description of all of the tax consequences that may be relevant to the holding or disposition of shares of our common stock or ADSs. This summary applies only to U.S. Holders (as defined below) that hold shares of our common stock or ADSs as “capital assets” for U.S. federal income tax purposes. It does not address the tax treatment of investors subject to special tax rules, such as banks or other financial institutions, tax-exempt entities, partnerships (or entities or arrangements treated as partnerships for U.S. federal income tax purposes) or partners therein, insurance companies, dealers in securities, traders in securities that elect mark to market treatment for their securities, a person whose functional currency for tax purposes is not the U.S. dollar, investors that own or are treated as owning 10% or more of our stock (by vote or value, and taking into account common shares held directly or through depositary arrangements), or investors that hold common shares or ADSs as part of a straddle, hedging, conversion or other integrated transaction. In addition, this summary does not address the tax consequences to U.S. Holders of acquiring, owning, or disposing of the common shares or ADSs under any U.S. federal estate or gift tax, U.S. alternative minimum tax, or U.S. state or local, foreign or other tax laws (such as the Medicare contribution tax on net investment income).

For purposes of this discussion, “U.S. Holder” means a beneficial owner of common shares or ADSs that is for U.S. federal income tax purposes (i) an individual who is a citizen or resident of the United States, (ii) a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created in, or organized under the law of, the United States, any State thereof or the District of Columbia, or (iii) otherwise subject to U.S. federal income tax on a net income basis with respect to the common shares or ADSs.

This summary is based, in part, upon the representations made by the depositary to us and assumes that the deposit agreement for the ADSs, and all other related agreements, will be performed in accordance with their terms.

U.S. Holders should consult their own tax advisors concerning the U.S. federal, state, local, foreign and other tax consequences of acquiring, owning, and disposing of shares of our common stock or ADSs in light of their particular circumstances.

### ***Treatment of the ADSs***

U.S. Holders of ADSs generally will be treated for U.S. federal income tax purposes as holding shares of our common stock represented by the ADSs. No gain or loss will be recognized on an exchange of shares of our common stock for ADSs or an exchange of ADSs for shares of our common stock if the depositary has not taken any action inconsistent with the material terms of the deposit agreement for the ADSs or the U.S. Holder's ownership of the underlying shares of our common stock. A U.S. Holder's tax basis in the shares of our common stock received in exchange for ADSs will be the same as its tax basis in the ADSs, and the holding period in the shares will include the holding period in the ADSs.

### ***Dividends***

Subject to the application of the PFIC rules discussed below, a U.S. Holder generally will recognize ordinary dividend income in an amount equal to the amount of any cash and the value of any property we distribute as a distribution with respect to the U.S. Holder's common stock (or ADSs), to the extent that the distribution is paid out of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles, when the distribution is received (or when received by the depositary in the case of ADSs). We do not intend to maintain calculations of earnings and profits under U.S. federal income tax principles. Therefore, a U.S. Holder should expect that distributions paid with respect to the shares of our common stock or ADSs generally will be treated as dividends. Dividends will not be eligible for the dividends received deduction generally allowable to U.S. corporations under the Code. Dividends paid on the shares of our common stock or ADSs will be treated as "qualified dividends" taxable at preferential rates, if (i) we are eligible for the benefits of a comprehensive income tax treaty with the United States that the IRS has approved for the purposes of the qualified dividend rules, (ii) we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a PFIC, and (iii) the U.S. Holder satisfies certain holding period and other requirements. The Tax Convention has been approved for the purposes of the qualified dividend rules and we believe we will be eligible for the benefits of the Tax Convention.

Dividend income will include any amounts withheld in respect of Japanese taxes, and will be treated as foreign-source income for foreign tax credit purposes. Subject to applicable limitations, some of which vary depending upon the U.S. Holder's circumstances, Japanese taxes withheld from dividends on shares of our common stock or ADSs generally will be creditable against the U.S. Holder's U.S. federal income tax liability to the extent such taxes do not exceed any reduced withholding rate available under the Tax Convention. The rules governing foreign tax credits are complex, and U.S. Holders should consult their tax advisors regarding the creditability of foreign taxes in their particular circumstances. In lieu of claiming a foreign tax credit, a U.S. Holder may, at its election, deduct creditable foreign taxes, including Japanese taxes, in computing its taxable income, subject to applicable limitations. An election to deduct foreign taxes instead of claiming foreign tax credits applies to all foreign taxes paid or accrued by the U.S. Holder in the taxable year.

Dividends paid in a currency other than U.S. dollars will be includable in income in a U.S. dollar amount based on the exchange rate in effect on the date of receipt (or the date of the depositary's receipt in the case of ADSs), whether or not the payment is converted into U.S. dollars at that time. A U.S. Holder should not recognize any foreign currency gain or loss in respect of the distribution if the foreign currency is converted into U.S. dollars on the date the distribution is received. If the foreign currency is not converted into U.S. dollars on the date of receipt, however, gain or loss may be recognized upon a subsequent sale or other disposition of the foreign currency. The foreign currency gain or loss (if any) generally will be treated as ordinary income or loss to the U.S. Holder and generally will be treated as U.S.-source income or loss, which may be relevant in calculating the U.S. Holder's foreign tax credit limitation.

### ***Disposition***

Subject to the application of the PFIC rules discussed below, a U.S. Holder generally will recognize capital gain or loss upon the sale, exchange (other than an exchange of ADSs for shares of our common stock or

shares for ADSs) or other taxable disposition of the shares of our common stock or ADSs in an amount equal to the difference between the U.S. dollar value of the amount realized on the disposition and the U.S. Holder's adjusted tax basis in the shares of our common stock or ADSs as determined in U.S. dollars. A U.S. Holder's adjusted tax basis in the shares of our common stock or ADSs generally will be its U.S. dollar cost. The gain or loss generally will be treated as U.S.-source gain or loss. Net long-term capital gain recognized by a non-corporate U.S. Holder generally will be taxed at a preferential rate. Deductions for capital losses are subject to limitations.

The amount realized by a U.S. Holder on a sale, exchange (other than an exchange of ADSs for shares of our common stock or shares for ADSs) or other taxable disposition of shares of our common stock or ADSs for an amount in a currency other than U.S. dollars will be the U.S. dollar value of that amount on the date of sale, exchange or disposition. On the settlement date, the U.S. Holder will recognize U.S.-source foreign currency gain or loss (taxable as ordinary income or loss) equal to the difference (if any) between that U.S. dollar value and the U.S. dollar value as of the settlement date of the amount received, in each case based on the exchange rates in effect on the relevant date. However, in the case of shares of our common stock or ADSs that are traded on an established securities market that are sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), the amount realized will be based on the exchange rate in effect on the settlement date for the sale, and no exchange gain or loss will be recognized at that time. A U.S. Holder will have a tax basis in the currency received equal to the U.S. dollar value of the currency received on the settlement date. Any gain or loss on a subsequent conversion or other disposition of the currency for a different U.S. dollar amount generally will be U.S.-source ordinary income or loss, which may be relevant in calculating the U.S. Holder's foreign tax credit limitation.

#### ***Passive Foreign Investment Company***

We will be classified as a PFIC in any taxable year in which, after taking into account our income and gross assets (and the income and assets of our subsidiaries pursuant to applicable "look-through rules") either (i) 75% or more of our gross income consists of certain types of "passive income" or (ii) 50% or more of the average quarterly value of our assets is attributable to "passive assets" (i.e., assets that produce or are held for the production of passive income). We believe that we were not a PFIC for U.S. federal income tax purposes in 2018 and do not expect to be a PFIC in 2019. However, PFIC status is a factual determination made annually after the close of each taxable year on the basis of the composition of our income and the value of our active versus passive assets. Because our belief is based in part on the expected market value of our equity, a decrease in the trading price of our common stock and/or ADSs may result in our becoming a PFIC. Additionally, the overall level of our passive assets will be significantly affected by changes in the amount of our cash, cash equivalents and securities held for investment, each of which may be classified as passive assets under the PFIC rules.

If we were to be or become a PFIC in any year during which a U.S. Holder owns shares of our common stock or ADSs, and the U.S. Holder has not made a mark to market election (as described below), the U.S. Holder generally will be subject to special rules (regardless of whether we continue to be a PFIC) with respect to its receipt of (i) any "excess distribution" (generally, any distribution on shares of common stock or ADSs that is greater than 125 percent of the average annual distributions paid to the U.S. Holder in the three preceding taxable years or, if shorter, the U.S. Holder's holding period for the shares or ADSs) and (ii) any gain realized on the sale or other disposition of shares of common stock or ADSs.

Under these rules (a) the excess distribution or gain will be allocated ratably over the U.S. Holder's holding period, (b) the amount allocated to the current taxable year and any taxable year prior to the first taxable year in which we are a PFIC will be taxed as ordinary income, (c) the amount allocated to each of the other taxable years will be subject to tax at the highest rate of tax in effect for the applicable class of taxpayer for that year, and (d) an interest charge for the deemed deferral benefit will be imposed with respect to the resulting tax attributable to each such other taxable year. If we are a PFIC, a U.S. Holder of shares of our common stock or ADSs generally will be subject to similar rules with respect to distributions to us by, and dispositions by us of the stock of, any of our direct or indirect subsidiaries that are also PFICs.

A U.S. Holder can avoid the interest charge described above by making a mark to market election with respect to its shares or ADSs, provided that the shares or ADSs are considered “marketable.” The shares or ADSs will be considered marketable if they are regularly traded on certain qualifying U.S. stock exchanges, such as the New York Stock Exchange, or on a foreign stock exchange if it is properly regulated and meets certain trading, listing, financial disclosure and other requirements. For this purpose, shares and ADSs will be considered regularly traded during any calendar year if they are traded, other than in *de minimis* quantities, on at least 15 days during each calendar quarter.

A U.S. Holder that makes a mark to market election must include in ordinary income for each year that we are a PFIC an amount equal to the excess, if any, of the fair market value of its shares or ADSs at the close of its taxable year over its adjusted basis therein. An electing holder may also claim an ordinary loss deduction for the excess, if any, of the U.S. Holder’s adjusted basis in shares or ADSs over their fair market value at the close of its taxable year, but this deduction is allowable only to the extent of any net mark to market gains for prior years. Any income or deductions taken into account under these mark to market rules will also increase or decrease a U.S. Holder’s adjusted tax basis in its shares or ADSs. Gains from an actual sale or other taxable disposition of shares or ADSs will be treated as ordinary income, and any losses incurred on a sale or other taxable disposition of shares or ADSs will be treated as an ordinary loss to the extent of any net mark to market gains for prior years. Once made, the election cannot be revoked without the consent of the IRS unless the shares or ADSs cease to be marketable. If we are a PFIC for any year in which the U.S. Holder owns shares of our common stock or ADSs but before a mark to market election is made, the interest charge rules described above will apply to any mark to market gain recognized in the year the election is made.

The Code provides an alternative election (a “QEF election”) to U.S. Holders that may mitigate the adverse U.S. federal income tax consequences to an electing U.S. Holder should we be classified as a PFIC. However, we do not intend to provide holders with the information necessary to make a QEF election. Thus, a U.S. Holder seeking to mitigate the potential adverse effects of the PFIC rules should consider making the mark to market election described above. A U.S. Holder should consult its tax advisor regarding the potential U.S. federal income tax consequences should we be classified as a PFIC in any taxable year.

As discussed in more detail below under “PFIC Reporting,” a U.S. Holder of shares of common stock or ADSs during any year in which we are treated as a PFIC generally will be required to file an annual report containing information with respect to its interest in a PFIC.

### ***Reporting and Backup Withholding***

Dividends on and proceeds from the sale or other disposition of shares of our common stock or ADSs that are made within the United States or through certain U.S.-related financial intermediaries may be reported to the IRS. Certain exempt recipients, such as corporations, are not subject to the information reporting or backup withholding requirements if they establish an exemption. Backup withholding may apply to amounts subject to reporting if the U.S. Holder fails to provide an accurate U.S. taxpayer identification number or otherwise to establish a basis for exemption. Backup withholding is not an additional tax. A U.S. Holder can claim a credit against its U.S. federal income tax liability for amounts withheld under the backup withholding rules, and a U.S. Holder can claim a refund for amounts in excess of its tax liability if it provides the required information to the IRS.

Each U.S. Holders should consult its own tax advisor regarding the application of the information reporting and backup withholding rules.

### ***PFIC Reporting***

Subject to certain exceptions, a U.S. Holder is required to file an annual information return, currently on Form 8621, with respect to each PFIC in which it owns an interest directly or, in some cases, indirectly

(including through certain pass-through entities), and the statute of limitations for collections may be suspended if it does not file such form. If we are a PFIC and own an interest in another PFIC, holders of shares of our common stock or ADSs would be treated as owning a proportionate amount (by value) of the stock of such other PFIC. However, we may be unable to provide investors in shares of our common stock or ADSs with the information necessary to comply with reporting obligations with respect to such other PFIC. U.S. Holders should consult their own tax advisors regarding the PFIC reporting requirements.

#### ***Foreign Financial Asset Reporting***

Certain U.S. Holders that own “specified foreign financial assets” with an aggregate value in excess of US\$50,000 are generally required to file an information statement along with their tax returns, currently on Form 8938, with respect to such assets. “Specified foreign financial assets” include any financial accounts held at a non-U.S. financial institution, as well as securities issued by a non-U.S. issuer that are not held in accounts maintained by financial institutions. The understatement of income attributable to “specified foreign financial assets” in excess of US\$5,000 extends the statute of limitations with respect to the tax return to six years after the return was filed. U.S. Holders who fail to report the required information could be subject to substantial penalties. U.S. Holders are encouraged to consult with their own tax advisors regarding the possible application of these rules, including the application of the rules to their particular circumstances.

#### **Item 10.F. *Dividends and Paying Agents***

Not applicable

#### **Item 10.G. *Statements by Experts***

Not applicable

#### **Item 10.H. *Documents on Display***

We file reports, including annual reports on Form 20-F, and other information with the SEC pursuant to the rules and regulations of the SEC that apply to foreign private issuers. You may read and copy any materials filed with the SEC at the Public Reference Room in Washington, D.C. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Any filings we make electronically will be available to the public over the internet at the SEC’s web site at <http://www.sec.gov>.

#### **Item 10.I. *Subsidiary Information***

Not applicable

#### **Item 11. *Quantitative and Qualitative Disclosures about Market Risk***

Market risk is the risk of loss related to adverse changes in market prices. We are exposed to foreign exchange rate and interest rate risk primarily associated with underlying assets and liabilities. Our financial assets and liabilities that are under financial risk management are comprised of the following:

- financial assets include cash and cash equivalents, short-term financial instruments, available-for-sale financial assets, trade and other receivables and other financial assets; and
- financial liabilities include trade and other payables, borrowings and other financial liabilities.



The following table summarizes the carrying amounts, fair values, principal cash flows by maturity date and weighted average interest rates of our short-term and long-term liabilities as of December 31, 2018 which are sensitive to exchange rates and/or interest rates.

	By maturities (as of December 31, 2018)		Total as of December 31,					
	2019	2020 and Beyond	2018		2017		2016	
			Total	Fair value	Total	Fair value	Total	Fair value
(in millions of yen, won and dong, except rates)								
Local currency (Japanese yen):								
Fixed rate	¥ —	—	¥ —	¥ —	¥ —	¥ —	¥ 258	¥ 258
Average weighted rate <sup>(1)</sup>	—	—	—	—	—	—	1.00%	—
Variable rate	23,000	—	23,000	23,000	22,042	22,042	21,667	21,667
Average weighted rate <sup>(1)</sup>	0.10%	—	0.10%	—	0.08%	—	0.07%	—
Sub-total	¥23,000	—	¥23,000	¥23,000	¥ 22,042	¥ 22,042	¥21,925	¥21,925
Foreign currency (Korean won):								
Fixed rate	—	—	—	—	₩ 404	₩ 404	—	—
Average weighted rate <sup>(1)</sup>	—	—	—	—	2.97%	—	—	—
Variable rate	—	—	—	—	—	—	—	—
Average weighted rate <sup>(1)</sup>	—	—	—	—	—	—	—	—
Sub-total	—	—	—	—	₩ 404	₩ 404	—	—
Exchange rate (Japanese yen)	—	—	—	—	0.11	0.11	—	—
Sub-total	—	—	—	—	¥ 43	¥ 43	—	—
Foreign currency (Vietnamese dong):								
Fixed rate	—	—	—	—	₫ 28,166	₫ 28,166	—	—
Average weighted rate <sup>(1)</sup>	—	—	—	—	—	—	—	—
Variable rate	—	—	—	—	—	—	—	—
Average weighted rate <sup>(1)</sup>	—	—	—	—	—	—	—	—
Sub-total	—	—	—	—	₫ 28,166	₫ 28,166	—	—
Exchange rate (Japanese yen)	—	—	—	—	0.005	0.005	—	—
Sub-total	—	—	—	—	¥ 139	¥ 139	—	—
Total	¥23,000	—	¥23,000	¥23,000	¥ 22,224	¥ 22,224	¥21,925	¥21,925

(1) Weighted average rates of the portfolio at the period end. The amounts do not include estimated interest from borrowings and corporate bonds scheduled to be paid.

### ***Exchange Rate Risk***

Japan is our largest market and, therefore, a substantial majority of our cash flow is denominated in Japanese yen. However, 28.3%, 27.4% and 28.4% of our revenues in 2016, 2017 and 2018, respectively, were derived from markets outside of Japan, and we expect that an increasing portion of our consolidated financial results in the future will be accounted for in currencies other than Japanese yen. In addition, some of our foreign operations' functional currencies are not the Japanese yen, and the financial statements of our foreign operations prepared initially using their functional currencies are translated into Japanese yen. Since the currency in which sales are recorded may not be the same as the currency in which expenses are incurred, foreign exchange rate fluctuations may materially affect our results of operations.

We selectively enter into derivative financial instruments with major financial institutions to manage the related risk exposures, primarily with respect to foreign exchange rate risks. Our management determines the market risk tolerance level, measuring period, controlling responsibilities and management procedures. We also prohibit all speculative transactions and evaluate and manage foreign exchange exposures.

The following table presents our foreign currency exposure and changes in shareholder's equity and profit or loss before tax from a 5% increase or decrease in the value of Japanese yen against the currencies set forth below, for the periods indicated, assuming all other variables are constant:

For the year ended December 31,								
2017				2018				
Shareholder's equity		Profit (loss) before tax		Shareholder's equity		Profit (loss) before tax		
Appreciation of functional currency by 5%	Depreciation of functional currency by 5%	Appreciation of functional currency by 5%	Depreciation of functional currency by 5%	Appreciation of functional currency by 5%	Depreciation of functional currency by 5%	Appreciation of functional currency by 5%	Depreciation of functional currency by 5%	
(in millions of yen)								
Korean won . . .	¥(18)	¥ 18	¥(13)	¥ 12	¥(14)	¥ 13	¥(27)	¥ 26
U.S. dollar . . . .	861	(820)	603	(574)	584	(556)	794	(756)
Euro . . . . .	11	(10)	8	(8)	—	—	—	—
Thai baht . . . . .	16	(15)	11	(10)	8	(8)	12	(12)
Taiwanese dollar . . . . .	—	—	—	—	(6)	5	(7)	6
Japanese yen . . . . .	13	(12)	10	(10)	3	(3)	4	(4)

See Note 25 of the notes to our annual consolidated financial statements.

### ***Interest Rate Risk***

Interest rate risk is defined as the risk that the fair value of future cash flows from a financial instrument will fluctuate because of changes in market interest rates. We are exposed to interest rate risk arising mainly through financial liabilities and assets that bear floating interest rates. Such financial liabilities and assets consist mainly of our outstanding borrowings and corporate bonds, as well as interest-bearing deposits and additional debt financings that we may periodically undertake for various reasons, including refinancing of our existing borrowings. The objective of interest rate risk management is to minimize financial costs and uncertainties associated with interest rate changes, and we strive to effectively manage our interest rate risk by periodic monitoring and responding to risk factors on a timely basis. In order to manage our interest rate risk in advance, we seek to minimize external borrowings by using internal funds, reduce borrowings with high interest rates, improve the structure of long-term and short-term borrowings, maintain the appropriate balance between borrowings with floating interest rates and fixed interest rates, and regularly monitor domestic and international interest rate changes.

Our cash equivalents and long-term and short-term financial instruments are also exposed to financial market risk arising from fluctuations in interest rates, which may affect the fair market value of our assets and investments. For example, an increase in interest rates would reduce the fair value of the fixed interest component of our interest-bearing securities. We manage our exposure to financial market risk by performing ongoing evaluations of our investment portfolio and investing some of our cash equivalents in fixed interest rate deposit instruments.

If interest rates had been 50 basis points higher or lower, the impact on our interest expenses of the applicable period would be as follows:

	For the year ended December 31,							
	2017				2018			
	Shareholder's equity		Profit (loss) before tax		Shareholder's equity		Profit (loss) before tax	
	Increase of 50 basis points	Decrease of 50 basis points	Increase of 50 basis points	Decrease of 50 basis points	Increase of 50 basis points	Decrease of 50 basis points	Increase of 50 basis points	Decrease of 50 basis points
	(in millions of yen)							
Interest expenses . . . .	¥(75)	¥13	¥(110)	¥19	¥(79)	¥16	¥(115)	¥23

If interest rates had been 50 basis points higher or lower, the impact on our debt instruments for the year ended December 31, 2018 would be as follows:

	For the year ended December 31, 2018			
	Shareholder's equity		Other comprehensive income (loss)	
	Increase of 50 basis points	Decrease of 50 basis points	Increase of 50 basis points	Decrease of 50 basis points
	(in millions of yen)			
Debt instruments . . . . .	¥(145)	¥86	¥(212)	¥125

The above analysis was performed using balances of the outstanding financial liabilities as of December 31, 2017 and 2018, as well as the balance of debt instruments as of December 31, 2018, assuming such liabilities and assets were outstanding for the full fiscal year immediately before the respective dates, while holding all other variables constant. As of December 31, 2017 and 2018, we did not have any significant amount of financial assets earning interest at variable rates.

### ***Inflation***

Inflation generally affects us by necessitating increases in the salaries and wages of our employees as well as increasing the cost of goods and services that we purchase. The general rate of inflation in Japan was (0.1)% in 2016, 0.5% in 2017 and 1.0% in 2018 according to the Organization for Economic Co-operation and Development. We do not believe that inflation has had a material impact on our results of operations in recent years.

### **Item 12. Description of Securities Other than Equity Securities**

#### **Item 12.A. Debt Securities**

Not applicable

#### **Item 12.B. Warrants and Rights**

Not applicable

#### **Item 12.C. Other Securities**

Not applicable

## Item 12.D. American Depositary Shares

### Fees Payable by ADR Holders

JPMorgan Chase Bank, N.A. is the depositary for our ADSs. As an ADS holder, you will be required to pay the following service fees to the depositary:

<u>Persons depositing or withdrawing shares must pay:</u>	<u>For:</u>
US\$5.00 (or less) per each 100 ADSs	Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property
	Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates
US\$0.05 (or less) per ADS	Any distribution of cash proceeds to you
A fee equivalent to the fee that would be payable if securities distributed to you had been shares of our common stock and the shares had been deposited for issuance of ADSs	Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to ADS holders
US\$0.05 per ADS per calendar year	Depositary services
Registration or transfer fees	Transfer and registration of shares of our common stock on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares
Expenses of the depositary	Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement) converting foreign currency to U.S. dollars
Taxes and other governmental charges the depositary or the custodian has to pay on any ADS or share underlying an ADS, including any applicable interest and penalties thereon and any share transfer or other taxes or governmental charges; for example, stock transfer taxes, stamp duty or withholding taxes	As necessary
Any charges incurred by the depositary or its agents for servicing the deposited securities	As necessary

The depositary collects its fees for issuance and cancellation of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deduction from cash distributions, by directly billing investors, or by charging the book-entry system accounts of participants acting for them. The depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

## **Fees and Payments from the Depositary to Us**

JPMorgan Chase Bank, N.A., with its principal executive office located at 383 Madison Avenue, Floor 11, New York, New York 10179, U.S.A., as depositary, has agreed to reimburse us for a portion of certain expenses we incur in connection with our ADR program, including investor relations expenses. There are limits on the amount of expenses for which the depositary will reimburse us, but the amount of reimbursement available to us is not related to the amounts of fees the depositary collects from investors. In addition, the depositary waives fees in connection with its ADR program, subject to a ceiling. These waived expenses include, but are not limited to, standard costs associated with the administration of the ADR program, associated operating expenses and investor relations advice. In October 2017, we received an initial upfront fixed contribution of US\$500,000 from the depositary for reimbursement of various fees and expenses incurred in connection with the ADR program during the one-year period commencing on the closing date of our initial public offering in July 2016.

## **PART II**

### **Item 13. *Defaults, Dividend Arrearages and Delinquencies***

Not applicable

### **Item 14. *Material Modifications to the Rights of Security Holders and Use of Proceeds***

See “Item 10.B. Memorandum and Articles of Association” for a description of the rights of security holders, which remain unchanged.

The following “Use of Proceeds” information relates to the Registration Statement on Form F-1, as amended (File Number: 333-211954), or the Form F-1, in relation to our initial public offering, which was declared effective by the SEC on July 8, 2016. Our initial public offering included an international offering in the United States and countries outside of Japan of 22,000,000 shares of common stock in the form of shares and ADSs, at a price of ¥3,300 per share and \$32.84 per ADS, and a concurrent offering in Japan of 13,000,000 shares at a price of ¥3,300 yen per share, and the underwriters exercised in full their options to purchase up to 5,250,000 shares of common stock. Morgan Stanley & Co. LLC, Nomura Securities Co., Ltd., Goldman Sachs Japan Co., Ltd. and JPMorgan Securities Japan Co., Ltd. were the joint global coordinators for the global offering, which closed in July 2016.

Costs related to our initial public offering were approximately ¥2,441 million. In addition, underwriting discounts and commissions were approximately ¥5,977 million. None of the fees and expenses were directly or indirectly paid to the directors, officers, general partners of our company or their associates, persons owning 10% or more of shares of our common stock, or our affiliates.

We received proceeds of approximately ¥126,848 million from our initial public offering. For the period from July 8, 2016 to December 31, 2018, we used the proceeds from our initial public offering as follows:

- approximately ¥42,833 million for the repayment of short-term borrowings;
- approximately ¥28,331 million for our investments in associates and joint ventures;
- approximately ¥12,075 million for the acquisition of businesses and subsidiaries; and
- approximately ¥16,511 million for the acquisition of additional servers.

None of the net proceeds from our initial public offering were directly or indirectly paid to the directors, officers, general partners of our company or their associates, persons owning 10% or more of shares of our common stock, or our affiliates.

There has been no material change in the planned use of proceeds from our initial public offering as described in the Form F-1.

**Item 15. Controls and Procedures**

**a. Disclosure Controls and Procedures**

Our management has evaluated, under the supervision and with the participation of our chief executive officer and chief financial officer, the effectiveness of our disclosure controls and procedures as of December 31, 2018. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon the evaluation of our management, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures as of December 31, 2018 were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

**b. Management's Annual Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS as issued by the IASB. Our internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS as issued by the IASB, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Based on our evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2018.

**c. Attestation Report of the Registered Public Accounting Firm**

The attestation report of our independent registered public accounting firm, PricewaterhouseCoopers Aarata LLC, on the effectiveness of our internal control over financial reporting as of December 31, 2018 is included in Item 18 of this Form 20-F.

**d. Changes in Internal Control over Financial Reporting**

There has been no change in our internal control over financial reporting during 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Item 16. [Reserved]**

**Item 16A. Audit Committee Financial Expert**

Under the Companies Act, we have elected to structure our corporate governance system as a company with a separate board of corporate auditors and therefore do not have an audit committee. Our board of corporate auditors is comprised of three corporate auditors.

Our board of corporate auditors has determined that it does not have an “audit committee financial expert” serving on the board of corporate auditors. The qualifications for, and powers of, the corporate auditor delineated in the Companies Act are different from those anticipated for any audit committee financial expert. Corporate auditors have the authority to be given reports from a certified public accountant or an accounting firm concerning audits, including technical accounting matters. Each corporate auditor must fulfill the requirements under Japanese laws and regulations and otherwise follow Japanese corporate governance practices and, accordingly, our board of corporate auditors has confirmed that it is not necessarily in our best interest to nominate as corporate auditor a person who meets the definition of audit committee financial experts. Although we do not have an audit committee financial expert on our board of corporate auditors, we believe that our current corporate governance system, taken as a whole, is fully equivalent to a system having an audit committee financial expert on our board of corporate auditors.

**Item 16B. Code of Ethics**

We have adopted a code of ethics that applies to our chief executive officer, chief financial officer and principal accounting officer, as well as to our directors, other officers and employees. Our code of ethics is available on our website at [www.linecorp.com](http://www.linecorp.com). If we amend the provisions of our code of ethics that apply to our chief executive officer, chief financial officer and principal accounting officer and persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver on our website at the same address.

**Item 16C. Principal Accountant Fees and Services**

**Audit and Non-Audit Fees**

The following table sets forth the fees billed to us by our independent certified public accountant, PricewaterhouseCoopers Aarata and member firms of PricewaterhouseCoopers International Limited, in 2017 and 2018:

	<b>For the year ended December 31,</b>	
	<b>2017</b>	<b>2018</b>
	<b>(In millions of yen)</b>	
Audit fees .....	¥560	¥727
Audit-related fees .....	—	16
Tax fees .....	42	60
All other fees .....	8	16
<b>Total fees .....</b>	<b>¥610</b>	<b>¥819</b>

Audit fees were related to the audit of our consolidated financial statements and other audit or interim review services provided in connection with statutory and regulatory filings or engagements.

Audit-related fees were related to the issuance of comfort letters in connection with the issuance of the Convertible Bonds in September 2018.

Tax fees were related to tax compliance services.

All other fees were related to other non-audit services, such as consulting services.

### **Pre-Approval Policies and Procedures of the Board of Corporate Auditors**

Our board of corporate auditors has adopted a policy for the pre-approval of audit and permissible non-audit services performed by our independent public accountants to ensure that the provision of these services do not impair the independence of our independent public accountants. Under this policy, pre-approvals for the following services to us and our subsidiaries have been granted by our board of corporate auditors: (i) audit services; (ii) audit-related services, such as due diligence and internal control reviews; (iii) general tax advisory services; and (iv) certain non-audit services that would not impair the independence of our independent public accountants. Any other service must be specifically pre-approved by our board of corporate auditors.

Our board of corporate auditors did not pre-approve any non-audit services under the *de minimis* exception of Rule 2.01(c)(7)(i)(C) of Regulation S-X as promulgated by the SEC.

### **Item 16D. Exemptions from the Listing Standards for Audit Committees**

Under the Companies Act, we have elected to structure our corporate governance system as a company with a separate board of corporate auditors and therefore do not have an audit committee. For foreign private issuers, use of a board of corporate auditors in compliance with home country rules is permitted under Rule 10A-3(c)(3) of the Exchange Act. Our reliance on Rule 10A-3(c)(3) does not, in our opinion, materially adversely affect the ability of our board of corporate auditors to act independently and to satisfy the other requirements of Rule 10A-3.

### **Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

The following table sets forth information regarding purchases by us of our common shares during the period covered by this annual report.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (as of end of period)
May 1, 2018 – May 31, 2018 . . . . .	382	3,989	—	—
June 1, 2018 – June 30, 2018 . . . . .	191	4,236	—	—
July 1, 2018 – July 31, 2018 . . . . .	110	5,084	—	—
August 1, 2018 – August 31, 2018 . . . . .	152	4,853	—	—
September 1, 2018 – September 30, 2018 . . . . .	49	5,080	—	—
December 1, 2018 – December 31, 2018 . . . . .	69	3,644	—	—
Total . . . . .	<u>953<sup>(1)</sup></u>	<u>¥4,334</u>	<u>—</u>	<u>—</u>

(1) Under the Companies Act, if a shareholder owns shares of common stock constituting less than one “unit” (100 shares), we are required to purchase those shares upon the shareholder’s request. See “Item 10.B. Memorandum and Articles of Association — Unit Share System.” During the year ended December 31, 2018, we purchased a total of 953 shares of common stock pursuant to this requirement.

### **Item 16F. Change in Registrant’s Certifying Accountant**

Not applicable



## Item 16G. Corporate Governance

Pursuant to the rules of the New York Stock Exchange applicable to foreign private issuers like us that are listed on the New York Stock Exchange, we are required to disclose significant differences between the New York Stock Exchange's corporate governance standards and those that we follow under Japanese law and in accordance with our own internal procedures. The following is a summary of such significant differences.

<u>NYSE Corporate Governance Standards</u>	<u>Our Corporate Governance Practice</u>
<p><b>Director Independence</b> Listed companies must have a majority of independent directors.</p>	<p>In accordance with the listing rules of the Tokyo Stock Exchange, we are required to have at least one Independent Officer. Requirements for an Independent Officer are stringent. An Independent Officer may not be (a) a person who is, or has been until recently, a major business counterparty or an executive director, executive officer, manager or employee of the major business counterparties, (b) a person who is, or has been until recently, a professional advisor receiving significant compensation from the Company, (c) a person who has been until recently a director, executive officer, corporate auditor, manager or employee of the parent company or an executive director, executive officer, manager or employee of the parent company's subsidiaries, or (d) a relative of persons mentioned in (a), (b) or (c) or a relative of certain scope of persons such as directors of the parent company or any of its subsidiaries.</p> <p>Three of the eight members of our board of directors are deemed to be Independent Directors.</p>
<p><b>Nomination/Corporate Governance Committee</b> Listed companies must have a nomination/corporate governance committee composed entirely of independent directors. The committee must have a charter that addresses the purpose, responsibilities (including development of corporate governance guidelines) and annual performance evaluation of the committee.</p>	<p>Although we are not required to have a nomination/corporate governance committee under Japanese law, we have voluntarily established a committee, composed of our existing outside directors and president, to advise our board of directors in the selection of candidates for our outside directors. Our directors are elected at a general meeting of shareholders.</p>
<p><b>Compensation Committee</b> Listed companies must have a compensation committee composed entirely of independent directors. The committee must have a charter that addresses the purpose, responsibilities and annual performance evaluation of the committee. The charter must be made available on the company's website. In addition, in accordance with the SEC rules adopted pursuant to Section 952 of the Dodd-Frank Act, the New York Stock Exchange listing standards were amended to</p>	<p>Although we are not required to have a compensation committee under Japanese law, we have voluntarily established a committee, composed of a majority of outside directors, to advise our board of directors in matters relating to the overall compensation scheme and the amount of compensation for each of our directors for the purpose of ensuring the validity of the compensation and improving the decision-making process.</p>

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#### NYSE Corporate Governance Standards

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expand the factors relevant in determining whether a committee member has a relationship with the company that will materially affect that member's duties to the compensation committee.

#### **Executive Session**

Non-management directors of listed companies must meet in regularly scheduled executive sessions without management.

#### **Audit Committee**

Listed companies must have an audit committee that satisfies the requirements of Rule 10A-3 under the Exchange Act. All members must be independent. The committee must have a charter addressing the committee's purpose, an annual performance evaluation of the committee, and the duties and responsibilities of the committee. The charter must be made available on the company's website.

#### **Audit Committee Additional Requirements**

Listed companies must have an audit committee that is composed of at least three directors. Listed companies must maintain an internal audit function to provide management and the audit committee with ongoing assessments of the listed company's risk management processes and system of internal control.

#### **Shareholder Approval of Equity Compensation Plan**

Listed companies must allow its shareholders to exercise their voting rights with respect to any material revision to the company's equity compensation plan.

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#### Our Corporate Governance Practice

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The aggregate amount of compensation to be paid to all directors and corporate auditors are determined by a resolution of the general meeting of shareholders, unless their compensation is provided for in the articles of incorporation. Based on such resolution, the distribution of compensation among directors is broadly delegated to our board of directors, whose decision-making process is supported by our compensation committee as described above, and the distribution of compensation among corporate auditors is determined by consultation among our corporate auditors.

We do not normally hold executive sessions solely attended by non-management directors as that is not required under Japanese law, but we may elect to do so at the discretion of the directors.

Like a majority of Japanese companies, we maintain a board of corporate auditors that is legally separate and independent from the board of directors. The board of corporate auditors is required to prepare an audit report based on the audit reports issued by the individual corporate auditors and submit such audit reports to a relevant director and, in the case of audit reports related to financial statements, independent certified public accountants are required to examine the financial statements and business reports to be submitted by a representative director at the general meetings of shareholders and to prepare an audit report. The board of corporate auditors is also empowered to establish the audit principles, the method of examination by the corporate auditors of our affairs and financial position and any other matters relating to the performance of the corporate auditors' duties.

Currently, we have three corporate auditors. Each corporate auditor has a four-year term.

The adoption of an equity compensation plan including stock option-based plans for directors and corporate auditors requires shareholder approval.

### Shareholder Approval of Equity Offerings

Listed companies must allow its shareholders to exercise their voting rights with respect to equity offerings that do not qualify as public offerings for cash, and offerings of equity to related parties.

Stock options may only be issued with the approval of the board of directors, unless stock options are granted on preferential terms to the recipient, in which case we must obtain shareholder approval by a “special resolution” of a general meeting of shareholders. Under our articles of incorporation, two-thirds or more of the votes of the shareholders in attendance, who must hold in the aggregate a majority of the voting rights of shareholders entitled to exercise voting rights, is required for such a special resolution of our shareholders.

Under Japanese law, we are not required to obtain shareholder approval unless (i) new shares or existing shares held by us as treasury stock as well as stock acquisition rights or bonds with stock acquisition rights are issued or transferred at a “specially favorable” price or (ii) any third party allotment of new shares, treasury shares, stock acquisition rights or bonds with stock acquisition rights satisfies certain requirements under the provisions related to change of controlling shareholder. In the case of (i) above, we must obtain shareholder approval by a “special resolution” of a general meeting of shareholders.

In addition, under the Securities Listing Regulations of the Tokyo Stock Exchange, we may be required to obtain shareholder approval if we conduct a third party allotment that results in a dilution ratio of voting rights of 25% or more, or if there is an expectation of a change of controlling shareholder due to such allotment.

### Corporate Governance Guidelines

Listed companies must adopt and disclose corporate governance guidelines.

Although we do not maintain separate corporate governance guidelines and are not required to adopt such guidelines under Japanese law, we are in compliance with the rules of the Tokyo Stock Exchange, which require listed companies, including us, to comply with the principles of the Corporate Governance Code established by the Tokyo Stock Exchange, and in cases of noncompliance with some or all of the principles, to disclose the reasons for such noncompliance.

### Code of Business Conduct and Ethics

Listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers.

We have adopted a Group Code of Conduct which sets forth legal and ethical standards of conduct for employees, officers, directors, contract staff and external representatives and agents of our group. A copy of our Group Code of Conduct is available on our website at [www.linecorp.com](http://www.linecorp.com).

**Item 16H. *Mine Safety Disclosure***

Not applicable

**PART III**

**Item 17. Financial Statements**

Not applicable

**Item 18. Financial Statements**

The following financial statements are filed as part of this annual report, together with the report of the independent auditors:

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**Item 19. Exhibits**

- 1.1 — Articles of Incorporation of LINE Corporation (English translation)
- 1.2\* — Share Handling Regulations (English translation)
- 1.3 — Regulations of the Board of Directors (English translation)
- 1.4\* — Regulations of the Board of Corporate Auditors (English translation)
- 2.1\* — Form of Deposit Agreement (including Form of American Depositary Receipt)
- 8.1# — List of Subsidiaries of the Registrant
- 12.1 — Certification by the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 12.2 — Certification by the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 13.1 — Certification by the Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 13.2 — Certification by the Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101.INS — XBRL Instance Document
- 101.SCH — XBRL Taxonomy Extension Schema
- 101.CAL — XBRL Taxonomy Extension Calculation Linkbase
- 101.DEF — XBRL Taxonomy Extension Definition Linkbase
- 101.LAB — XBRL Taxonomy Extension Label Linkbase
- 101.PRE — XBRL Taxonomy Extension Presentation Linkbase

\* Previously filed with the Registration Statement on Form F-1 (File No. 333-211954), initially filed on June 10, 2016, and incorporated herein by reference.

# Incorporated by reference to Item 4.C. *Organizational Structure*.

## SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

LINE Corporation

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*(Registrant)*

/s/ In Joon Hwang

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Name: In Joon Hwang

Title: Chief Financial Officer

Date: March 29, 2019

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### Audited consolidated financial statements

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## **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of LINE Corporation

### ***Opinions on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying consolidated statements of financial position of LINE Corporation and its subsidiaries (the “Company”) as of December 31, 2018 and 2017, and the related consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2018, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control—Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control—Integrated Framework* (2013) issued by the COSO.

### ***Basis for Opinions***

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Annual Report on Internal Control over Financial Reporting appearing under Item 15(b). Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

### ***Definition and Limitations of Internal Control over Financial Reporting***

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in

accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers Aarata LLC  
Tokyo, Japan  
March 29, 2019

We have served as the Company's auditor since 2015.

LINE Corporation  
Consolidated Statements of Financial Position

(In millions of yen)

	Notes	December 31, 2017	December 31, 2018
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents . . . . .	6, 25	123,606	256,978
Trade and other receivables . . . . .	7, 15, 25	42,892	37,644
Other financial assets, current . . . . .	15, 25	13,258	15,915
Contract assets . . . . .	21	—	339
Inventories . . . . .	8	3,455	4,887
Other current assets . . . . .		7,438	9,751
<b>Total current assets</b> . . . . .		<u>190,649</u>	<u>325,514</u>
<b>Non-current assets</b>			
Property and equipment . . . . .	9	15,125	24,726
Goodwill . . . . .	10, 11, 29	16,767	17,095
Other intangible assets . . . . .	10, 11, 29	6,486	5,298
Investments in associates and joint ventures . . . . .	31	24,844	53,921
Other financial assets, non-current . . . . .	15, 25	32,084	42,287
Deferred tax assets . . . . .	13	16,492	17,107
Other non-current assets . . . . .		992	639
<b>Total non-current assets</b> . . . . .		<u>112,790</u>	<u>161,073</u>
<b>Total assets</b> . . . . .		<u>303,439</u>	<u>486,587</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables . . . . .	15, 25	28,810	34,985
Other financial liabilities, current . . . . .	15, 25	28,003	36,726
Accrued expenses . . . . .		12,087	18,405
Income tax payables . . . . .		2,365	4,855
Contract liabilities . . . . .	21	—	24,637
Advances received . . . . .		17,975	—
Deferred revenue . . . . .		9,246	—
Provisions, current . . . . .	12	991	2,581
Other current liabilities . . . . .	14	1,940	1,037
<b>Total current liabilities</b> . . . . .		<u>101,417</u>	<u>123,226</u>
<b>Non-current liabilities</b>			
Corporate bonds . . . . .	15, 25	—	142,132
Other financial liabilities, non-current . . . . .	15, 25	602	527
Deferred tax liabilities . . . . .	13	1,573	503
Provisions, non-current . . . . .	12	3,060	3,309
Post-employment benefits . . . . .	16	6,162	6,943
Other non-current liabilities . . . . .		648	1,433
<b>Total non-current liabilities</b> . . . . .		<u>12,045</u>	<u>154,847</u>
<b>Total liabilities</b> . . . . .		<u>113,462</u>	<u>278,073</u>
<b>Shareholders' equity</b>			
Share capital . . . . .	19	92,369	96,064
Share premium . . . . .	19	93,560	118,626
Treasury shares . . . . .	19	(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> . . . . .		<u>185,075</u>	<u>198,916</u>
<b>Non-controlling interests</b> . . . . .	30	4,902	9,598
<b>Total shareholders' equity</b> . . . . .		<u>189,977</u>	<u>208,514</u>
<b>Total liabilities and shareholders' equity</b> . . . . .		<u>303,439</u>	<u>486,587</u>

See Notes to Consolidated Financial Statements

LINE Corporation  
Consolidated Statements of Profit or Loss

				<i>(In millions of yen)</i>		
	<u>Notes</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>		
<b>Revenues and other operating income:</b>						
Revenues	5, 21	140,704	167,147	207,182		
Other operating income	20, 21, 22	5,892	12,011	28,099		
<b>Total revenues and other operating income</b>		<u>146,596</u>	<u>179,158</u>	<u>235,281</u>		
<b>Operating expenses:</b>						
Payment processing and licensing expenses		(29,781)	(29,589)	(30,823)		
Sales commission expenses		(615)	(899)	(15,960)		
Employee compensation expenses	16, 27	(39,445)	(42,469)	(57,493)		
Marketing expenses		(11,833)	(15,477)	(20,311)		
Infrastructure and communication expenses		(7,770)	(9,087)	(10,483)		
Outsourcing and other service expenses		(13,779)	(24,007)	(31,825)		
Depreciation and amortization expenses	9, 10	(5,100)	(7,149)	(11,135)		
Other operating expenses	22	(18,376)	(25,403)	(41,141)		
<b>Total operating expenses</b>		<u>(126,699)</u>	<u>(154,080)</u>	<u>(219,171)</u>		
<b>Profit from operating activities</b>		19,897	25,078	16,110		
Finance income		87	257	413		
Finance costs		(65)	(26)	(519)		
Share of loss of associates and joint ventures	31	(833)	(6,321)	(11,148)		
Loss on foreign currency transactions, net		(43)	(818)	(902)		
Other non-operating income	22	9	1,963	869		
Other non-operating expenses	22, 26	(1,062)	(1,988)	(1,469)		
<b>Profit before tax from continuing operations</b>		17,990	18,145	3,354		
Income tax expenses	13	(8,904)	(9,922)	(9,522)		
<b>Profit/(Loss) for the year from continuing operations</b>		9,086	8,223	(6,168)		
(Loss)/profit from discontinued operations, net of tax	23, 24	(1,982)	(13)	376		
<b>Profit/(Loss) for the year</b>		<u>7,104</u>	<u>8,210</u>	<u>(5,792)</u>		
Attributable to:						
The shareholders of the Company		6,763	8,078	(3,718)		
Non-controlling interests	30	341	132	(2,074)		
				<i>(In yen)</i>		
<b>Earnings per share</b>						
Basic profit/(loss) for the year attributable to the shareholders of the Company	24	34.84	36.56	(15.62)		
Diluted profit/(loss) for the year attributable to the shareholders of the Company	24	31.48	34.01	(15.62)		
Earnings per share from continuing operations						
Basic profit/(loss) from continuing operations attributable to the shareholders of the Company	24	45.05	36.62	(17.20)		
Diluted profit/(loss) from continuing operations attributable to the shareholders of the Company	24	40.70	34.06	(17.20)		
Earnings per share from discontinued operations						
Basic (loss)/profit from discontinued operations attributable to the shareholders of the Company	24	(10.21)	(0.06)	1.58		
Diluted (loss)/profit from discontinued operations attributable to the shareholders of the Company	24	(9.22)	(0.05)	1.58		

*See Notes to Consolidated Financial Statements*

LINE Corporation  
Consolidated Statements of Comprehensive Income

	<u>Notes</u>	<i>(In millions of yen)</i>		
		<u>2016</u>	<u>2017</u>	<u>2018</u>
<b>Profit/(Loss) for the year</b> .....		7,104	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 .....	13	—	—	(2,681)
Remeasurement of defined benefit plans .....	13, 16	674	2,093	(169)
Income tax relating to items that will not be reclassified to profit or loss .....	13	(209)	(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 .....	13	—	—	88
Reclassification to profit or loss of debt instruments at FVOCI ...	26	—	—	10
Available-for-sale financial assets:				
Net changes in fair value of available-for-sale financial assets ...	13, 26	(2,019)	(3,339)	—
Reclassification to profit or loss of available-for-sale financial assets .....	26	293	1,090	—
Exchange differences on translation of foreign operations:				
(Loss)/gain arising during the year .....		(299)	3,751	(4,047)
Reclassification to profit or loss .....		50	(13)	(345)
Proportionate share of other comprehensive income of associates and joint ventures .....		3	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 .....	13	255	333	340
<b>Total other comprehensive (loss)/income for the year, net of tax</b> .....		<u>(1,252)</u>	<u>3,533</u>	<u>(6,137)</u>
<b>Total comprehensive income/(loss) for the year, net of tax</b> .....		<u>5,852</u>	<u>11,743</u>	<u>(11,929)</u>
Attributable to:				
The shareholders of the Company .....		5,546	11,365	(9,648)
Non-controlling interests .....		306	378	(2,281)

*See Notes to Consolidated Financial Statements*

LINE Corporation  
Consolidated Statements of Changes in Equity

(In millions of yen)

	Notes	Equity attributable to the shareholders of the Company							Non-controlling interests	Total shareholders' equity
		Share capital	Share premium	Accumulated deficit	Accumulated other comprehensive income			Total		
					Foreign currency translation reserve	Available-for-sale reserve	Defined benefit plan reserve			
<b>Balance at January 1, 2016</b>		12,596	18,983	(19,204)	240	6,917	(1,789)	17,743	(210)	17,533
<b>Comprehensive income/(loss)</b>										
Profit for the year		—	—	6,763	—	—	—	6,763	341	7,104
Other comprehensive income		—	—	—	(414)	(1,268)	465	(1,217)	(35)	(1,252)
<b>Total comprehensive income/ (loss) for the year</b>		—	—	6,763	(414)	(1,268)	465	5,546	306	5,852
Recognition of share-based payments	19, 27	—	9,520	—	—	—	—	9,520	—	9,520
Forfeiture of stock options	19	—	(60)	60	—	—	—	—	—	—
Exercise of stock options	19	1,836	(88)	—	—	—	—	1,748	—	1,748
Acquisition of subsidiary	29	—	—	—	—	—	—	—	93	93
Initial public offering	19	63,424	62,853	—	—	—	—	126,277	—	126,277
Other		—	—	—	—	—	—	—	0	0
<b>Balance at December 31, 2016</b>		<u>77,856</u>	<u>91,208</u>	<u>(12,381)</u>	<u>(174)</u>	<u>5,649</u>	<u>(1,324)</u>	<u>160,834</u>	<u>189</u>	<u>161,023</u>

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See Notes to Consolidated Financial Statements

LINE Corporation  
Consolidated Statements of Changes in Equity (continued)

(In millions of yen)

	Notes	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 .....		—	—	—	—	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 .....	19, 27	—	1,882	—	—	—	—	—	1,882	—	1,882
Forfeiture of stock options .....	19	—	(9)	—	9	—	—	—	—	—	—
Exercise of stock options .....	19	12,513	(1,088)	—	—	—	—	—	11,425	—	11,425
Acquisition of subsidiary .....	29	—	—	—	—	—	—	—	—	4,168	4,168
Acquisition of non-controlling interest .....		—	(423)	—	—	4	—	(2)	(421)	167	(254)
Issuance of common shares and acquisition of treasury shares under Employee Stock Ownership Plan .....	19	2,000	1,990	(4,000)	—	—	—	—	(10)	—	(10)
<b>Balance at December 31, 2017</b> .....		<u>92,369</u>	<u>93,560</u>	<u>(4,000)</u>	<u>(4,294)</u>	<u>3,158</u>	<u>3,928</u>	<u>354</u>	<u>185,075</u>	<u>4,902</u>	<u>189,977</u>

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See Notes to Consolidated Financial Statements

LINE Corporation  
Consolidated Statements of Changes in Equity (continued)

(In millions of yen)

		Equity attributable to the shareholders of the Company									
		Accumulated other comprehensive income									
	Notes	Share capital	Share premium	Treasury Shares	Accumulated deficit	Foreign currency translation reserve	Financial assets at FVOCI	Defined benefit plan reserve	Total	Non-controlling interests	Total shareholders' equity
<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 (adjusted)</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	19, 27	—	1,336	—	—	—	—	—	1,336	—	1,336
Forfeiture of stock options	19	—	(37)	—	37	—	—	—	—	—	—
Exercise of stock options	19	1,195	(199)	—	—	—	—	—	996	—	996
Changes in interests in subsidiaries	19, 30	—	17,440	—	—	(15)	(27)	1	17,399	8,241	25,640
Derecognition of non-controlling interests due to loss of control of subsidiaries	30, 31	—	—	—	—	—	—	—	—	(1,974)	(1,974)
Acquisition of subsidiaries	29	—	—	—	—	—	—	—	—	795	795
Issuance of common shares and acquisition of treasury shares under Employee Stock Ownership Plan	19	2,500	2,488	(5,000)	—	—	—	—	(12)	—	(12)
Issuance of convertible bonds with stock acquisition rights	19	—	4,175	—	—	—	—	—	4,175	—	4,175
Disposal of treasury shares	19	—	(137)	799	—	—	—	—	662	—	662
Acquisition of treasury shares	19	—	—	(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

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See Notes to Consolidated Financial Statements



LINE Corporation  
Consolidated Statements of Cash Flows

	Notes	<i>(In millions of yen)</i>		
		<u>2016</u>	<u>2017</u>	<u>2018</u>
<b>Cash flows from operating activities</b>				
Profit before tax from continuing operations		17,990	18,145	3,354
(Loss)/profit before tax from discontinued operations	23	<u>(2,726)</u>	<u>(19)</u>	<u>550</u>
Profit before tax		15,264	18,126	3,904
Adjustments for:				
Depreciation and amortization expenses	9,10	5,100	7,149	11,135
Finance income		(87)	(257)	(413)
Finance costs		65	26	519
Dividend income		—	(69)	(50)
Share-based compensation expenses	27	9,519	2,686	2,528
Gain on loss of control of subsidiaries and business transfer	20	(1,731)	(10,444)	(24,794)
Loss/(gain) on financial assets at fair value through profit or loss	15	656	(1,026)	646
Gain on disposal of property and equipment and intangible assets		(2,345)	—	—
Impairment loss of other intangible assets	11	—	214	212
Impairment loss of available-for-sale financial assets	15	293	1,761	—
Gain on sale of available-for-sale financial assets	15	—	(751)	—
Share of loss of associates and joint ventures	31	833	6,321	11,148
Dilution gains from changes in equity interest in associates and joint ventures		—	—	(2,620)
Loss/(gain) on foreign currency transactions, net		514	(182)	28
Changes in:				
Trade and other receivables		(756)	(13,539)	2,344
Contract assets	3	—	—	97
Inventories	8	407	(2,366)	(1,672)
Trade and other payables		(1,620)	6,215	6,653
Accrued expenses		2,229	2,642	7,082
Contract liabilities	3	—	—	641
Advances received		1,762	6,338	—
Deferred revenue		1,931	(700)	—
Provisions	12	297	187	1,079
Post-employment benefits	16	1,339	2,054	940
Other current assets		(1,780)	(2,860)	(2,428)
Other current liabilities		4,148	1,311	2,917
Others		205	232	504
<b>Cash provided by operating activities</b>		<u><b>36,243</b></u>	<u><b>23,068</b></u>	<u><b>20,400</b></u>
Interest received		86	252	409
Interest paid		(58)	(32)	(313)
Dividend received		4	98	82
Payment of issuance costs for corporate bonds		—	—	(1,954)
Income taxes paid		<u>(7,522)</u>	<u>(12,421)</u>	<u>(9,502)</u>
<b>Net cash provided by operating activities</b>		<u><b>28,753</b></u>	<u><b>10,965</b></u>	<u><b>9,122</b></u>

LINE Corporation

Consolidated Statements of Cash Flows (continued)

		<i>(In millions of yen)</i>		
	<u>Notes</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
<b>Cash flows from investing activities</b>				
Purchases of time deposits		(10,790)	(1,282)	(13,443)
Proceeds from maturities of time deposits		377	401	13,843
Purchase of equity investments	26	(1,245)	(4,880)	(5,022)
Proceeds from sales of equity investments		—	1,672	4,031
Investments in debt instruments		(7,642)	(6,433)	(15,661)
Proceeds from redemption of debt instruments		—	5,209	1,841
Acquisition of property and equipment and intangible assets		(6,352)	(12,622)	(20,939)
Proceeds from sale of property and equipment and intangible assets		5,124	472	181
Investments in associates and joint ventures	31	(9,333)	(5,566)	(14,214)
Return on capital from investments in associates		—	—	499
Payments of office security deposits		(2,533)	(1,112)	(4,130)
Refund of office security deposits		168	1,581	447
Payment of guarantee deposits		—	—	(800)
Return of the office security deposits received under sublease agreement	15	(8)	(19)	—
Guarantee deposits for the Japanese Payment Services Act	15, 25	(1,815)	(530)	(130)
Return of the guarantee deposits for the Japanese Payment Services Act	15, 25	900	3,340	765
Payment for acquisition of subsidiaries and businesses	20, 29	(423)	(11,887)	(188)
Proceeds from acquisition of subsidiaries and businesses, net of cash acquired	20	—	—	736
Cash disposed on loss of control of subsidiary and business transfer	20	(485)	(581)	(2,043)
Payments for loan receivables	20, 29	(2)	(2,165)	(754)
Collection of loan receivables		—	124	2,271
Others		(27)	48	(174)
<b>Net cash used in investing activities</b>		<b>(34,086)</b>	<b>(34,230)</b>	<b>(52,884)</b>
<b>Cash flows from financing activities</b>				
Repayment of short-term borrowings, net	15	(20,752)	(107)	—
Proceeds from short-term borrowings	15	—	—	1,050
Repayment of short-term borrowings	15	—	—	(72)
Payments for redemption of bonds	15	(510)	—	—
Repayment of borrowing arrangement	15	—	—	(11)
Proceeds from issuance of corporate bonds	15	—	—	149,978
Payments of common shares issuance costs	19	(706)	(30)	(33)
Proceeds from initial public offering	19	126,848	—	—
Proceeds from exercise of stock options	19	1,750	11,489	1,002
Payment for acquisition of interest in subsidiaries from non-controlling interests	30	—	(255)	(630)
Capital contribution from third party non-controlling interests	30	0	343	26,439
Proceeds from disposal of treasury shares	19	—	—	662
Others		(2)	(1)	16
<b>Net cash provided by financing activities</b>		<b>106,628</b>	<b>11,439</b>	<b>178,401</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>101,295</b>	<b>(11,826)</b>	<b>134,639</b>
<b>Cash and cash equivalents at the beginning of the year</b>	6	<b>33,652</b>	<b>134,698</b>	<b>123,606</b>
Effect of exchange rate fluctuations on cash and cash equivalents		(249)	734	(1,267)
<b>Cash and cash equivalents at the end of the year</b>	6	<b>134,698</b>	<b>123,606</b>	<b>256,978</b>

See Notes to Consolidated Financial Statements.

## LINE Corporation

### Notes to Consolidated Financial Statements

#### 1. Reporting Entity

LINE Corporation (the “Company”) was incorporated in September 2000 in Japan in accordance with the Companies Act of Japan under the name Hangame Japan Corporation to provide online gaming services. The Company changed its name to NHN Japan Corporation in August 2003, and subsequently changed its name to LINE Corporation in April 2013. The Company is a subsidiary of NAVER Corporation (“NAVER”), formerly NHN Corporation, which is domiciled in Korea. NAVER is the ultimate parent entity of the Company and its subsidiaries (collectively “the Group”). The Company’s head office is located at 4-1-6 Shinjuku, Shinjuku-ku, Tokyo, Japan.

The Company listed shares of its common shares in the form of American depositary shares on the New York Stock Exchange and shares of its common shares on the Tokyo Stock Exchange.

The Group mainly operate a cross-platform messenger application, LINE, and provides communication and content sales and advertising services. Communication and content are provided via the LINE platform, while advertising services are provided via LINE advertising, and web portals, livedoor and NAVER Matome.

#### 2. Basis of Preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The Group’s consolidated financial statements are presented in millions of Japanese yen, which is also the Company’s functional currency.

The consolidated financial statements were approved by Representative Director, President and Chief Executive Officer Takeshi Idezawa and Director and Chief Financial Officer In Joon Hwang on March 29, 2019.

#### 3. Significant Accounting Policies

The significant accounting policies applied by the Group in preparing its consolidated financial statements are set out below. The accounting policies have been applied consistently, except for effect of new and amended standards and interpretations of IFRS, to all periods presented in these consolidated financial statements. Refer to (30) New and Amended Standards and Interpretations for the impacts of the adoption of new and revised IFRSs issued by the IASB that are mandatorily effective for the accounting period that begins on or after January 1, 2018 on the Group’s annual consolidated financial statements as of December 31, 2017 and 2018, and for the years ended December 31, 2016, 2017 and 2018.

##### (1) Basis of Consolidation

The consolidated financial statements include the accounts of the Group, which are directly or indirectly controlled. Control is generally conveyed by ownership of the majority of voting rights. The Group controls an entity when the Group has power over the entity, is exposed, or has rights, to variable returns from the involvement with the entity and has the ability to affect those returns through its power over the entity.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group’s accounting policies. If the end of the reporting period of a subsidiary differs from that of the Company, the subsidiary prepares, for the purpose of preparing consolidated financial statements, additional financial statements as of the same date as the consolidated financial statements of the Group.

Non-controlling interest in a subsidiary is accounted for separately from the parent’s ownership interests in a subsidiary. Profit or loss and each component of other comprehensive income are attributed to the

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**3. Significant Accounting Policies (continued)**

(1) Basis of Consolidation (continued)

shareholders of the parent and non-controlling interest, even if this results in the non-controlling interest having a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. Any difference between the adjustment to the non-controlling interest and the fair value of the consideration paid or received is recognized directly in shareholders' equity as "equity attributable to the shareholders of the Company".

On February 12, 2016, the board of directors approved the abandonment of the MixRadio service ("MixRadio") segment. The operation of the MixRadio business was classified as a discontinued operation on March 21, 2016, when the abandonment took effect.

Intercompany balances and transactions have been eliminated upon consolidation.

(2) Basis of Measurement

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments measured at fair value, which is the price that would be received to sell such financial instruments or paid to transfer the related liability in an orderly transaction between market participants at the measurement date.

(3) Business Combinations

(a) Business combinations

In accordance with IFRS 3 *Business Combinations*, each identifiable asset and liability is measured at its acquisition date fair value except for the following:

- Deferred tax assets or liabilities which are recognized and measured in accordance with IAS 12 Income Taxes; and
- Employee benefit arrangements which are recognized and measured in accordance with IAS 19 Employee Benefits

Leases and insurance contracts are classified on the basis of the contractual terms and other factors at the inception of the contract or at the date of modification, which could be the acquisition date if the terms of the contract have been modified in a manner that would change its classification.

Contingent liabilities assumed in a business combination are recognized when such liabilities are present obligations and their fair value can be measured reliably.

The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. Acquisition-related costs are costs the acquirer incurs to effect a business combination. Those costs include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. Acquisition-related costs, other than those associated with the issue of debt or equity securities, are expensed in the periods in which the costs are incurred and the services are received.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**3. Significant Accounting Policies (continued)**

(3) Business Combinations (continued)

(a) Business combinations (continued)

- the recognized amount of any non-controlling interest in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses.

(b) Business combinations under common control

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and in which control is not transitory. The Group has accounted for the acquisition of business combination under common control based on the carrying amounts recorded in the consolidated financial statements of the acquired companies. The financial statements of acquired companies have been retrospectively consolidated as part of the Group's consolidated financial statements as if the acquisition of acquired companies had occurred on the date of its original acquisition by the common control group, regardless of the actual date of acquisition by the Group.

(4) Associates and Joint Arrangements

(a) Associates

An associate is an entity in which the Group has significant influence, but not control, over the entity's financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity, unless it can be clearly demonstrated that it is not the case.

The Group's investments in associates are accounted for using the equity method. Under the equity method, the investment in an associate is initially recognized at cost and the carrying amount is adjusted to recognize the Group's share of the profit or loss and changes in equity of the associate after the date of acquisition. Gains and losses from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Intra-group losses are recognized as an expense if intra-group losses indicate an impairment that requires recognition in the consolidated financial statements.

If an associate uses accounting policies different from those of the Group for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in applying the equity method.

When the Group's share of losses exceeds its interest in associates, the carrying amount of that interest, including any long-term investments, is reduced to nil and the recognition of further losses is discontinued.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**3. Significant Accounting Policies (continued)**

(4) Associates and Joint Arrangements (continued)

(b) Joint arrangements

A joint arrangement is an arrangement in which two or more parties have joint control. The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement.

Joint operations are joint arrangements whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in joint operations in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

Joint ventures are joint arrangements whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint ventures are accounted for using the equity method.

(5) Foreign Currencies

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the reporting date's exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated using the exchange rate at the date of the initial transactions. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of equity instruments at FVOCI which are recognized in other comprehensive income.

(b) Foreign operations

If the presentation currency of the Group is different from a foreign operation's functional currency, the financial statements of the foreign operation are translated into the presentation currency using the following methods:

The assets and liabilities of foreign operations, whose functional currency is not the currency of a hyperinflationary economy, are translated to presentation currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to the presentation currency at the average foreign exchange rates for the reporting period. Foreign currency differences are recognized in other comprehensive income.

When a foreign operation is disposed of, the relevant amount after the translation is reclassified to profit or loss as part of profit or loss on disposal. In the event that a partial disposal does not lead to a loss of control in a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. For partial disposals that involve the loss of control in a foreign operation, the relevant proportion is reclassified to profit or loss.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**3. Significant Accounting Policies (continued)**

(6) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term investments with maturity dates that are within three months from the purchase dates. Such investments are highly liquid and readily convertible to known amounts of cash. Cash and cash equivalents are subject to an insignificant risk of changes in value, and are used by the Group in managing its short-term commitments.

(7) Financial Assets

(a) 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. 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 at amortized cost

Financial assets measured at amortized cost 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 whose objective is achieved solely by collecting contractual cash flows.

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 whose objective is achieved by both collecting contractual cash flows and selling financial assets, and equity instruments which the Group has made an irrevocable election at the time of initial recognition to account for the equity instruments at fair value through other comprehensive income. The Group made irrevocable election to classify all equity investments (other than those which are accounted for as affiliates under equity method or consolidated) as financial assets measured at FVOCI.

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.

(b) Measurement of financial assets

i. *Initial measurement*

At initial recognition, the Group measures financial assets at the fair value. Financial assets not classified as financial assets at fair value through profit or loss are measure at fair value, including any transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets measured at fair value through profit or loss are expensed in profit or loss.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**3. Significant Accounting Policies (continued)**

(7) Financial Assets (continued)

(b) Measurement of financial assets (continued)

ii. *Subsequent measurement*

Debt instruments:

(i) Financial assets at amortized cost

The financial assets at amortized cost are measured at amortized cost using the effective interest method, and related interest income are included in finance income. When the financial asset is derecognized, the difference between amortized cost and consideration received is recognized in profit or loss. When there are changes in the amount of expected credit loss of the financial asset, an impairment gain or loss 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 whereas related interest income and foreign exchange gains or losses are recognized in profit or loss. The Group recognizes impairment gain or loss due to expected credit loss in profit or loss. When debt investments are derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss.

(iii) Fair value through profit or loss

Subsequent to initial recognition, financial assets are measured at fair value. Gains or losses on debt instruments are 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, any changes in the book value resulting from 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. The accumulated other comprehensive income of the equity instruments measured at FVOCI on which the Group made an irrevocable election are transferred to retained earnings, when such equity instruments are sold. Where the Group has not elected to designate equity instruments as financial assets measured at fair value through other comprehensive income, any changes in the book value resulting from fair value measurement are recognized in profit or loss.

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

(c) Derivative financial instruments

The Group may use derivative financial instruments, such as exchange forward contracts to hedge its foreign exchange risk. Such derivative financial instruments are initially recognized at fair value on the



LINE Corporation

Notes to Consolidated Financial Statements (continued)

**3. Significant Accounting Policies (continued)**

(7) Financial Assets (continued)

(c) Derivative financial instruments (continued)

date on which a derivative contract is entered into and are subsequently re-measured at fair value. Any gains or losses arising from changes in the fair value of derivatives are recognized in profit or loss. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

(d) Derecognition of a financial asset

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability. If the Group retains substantially all the risks and rewards of ownership of the transferred financial assets, the Group continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

(8) Financial Liabilities

The Group recognizes financial liabilities in the Consolidated Statements of Financial Position when the Group becomes a party to the contractual provisions of the financial liability. At the date of initial recognition, financial liabilities are measured at fair value, net of transaction costs. Subsequent to initial recognition, financial liabilities are measured at amortized cost using the effective interest method.

The Group derecognizes financial liabilities from the Consolidated Statements of Financial Position when it is extinguished (i.e. when the obligation specified in the contract is discharged, canceled or expires).

For convertible bonds, at initial recognition, the book value of the liability component of the bond is the fair value of discounted future cash flows of the bond at a rate of similar debt instruments taking into account the Company's credit risk excluding the transaction costs from issuing the bond. After the initial recognition, the liability component is measured at amortized cost using the effective interest method. The difference between the fair value of the entire convertible bond and the fair value of the liability component is allocated to the conversion option. The difference is recognized as the equity component at the amount excluding the transaction costs as well as income taxes and is not remeasured subsequently.

(9) Inventories

Inventories, consisting of merchandise for resale, are stated at the lower of cost and net realizable value. Cost is determined on a first-in, first-out ("FIFO") basis. Net realizable value is determined based on the estimated selling price, less costs to sell.

(10) Share Capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and stock options are recognized as a deduction from equity, net of any tax effects.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**3. Significant Accounting Policies (continued)**

(11) Treasury Shares

Treasury shares are measured at costs and deducted from equity. No gain or loss is recognized on the purchase, sales, or cancellation of the Company's treasury shares. The difference between the book value and consideration received at the times of sales is recognized in equity.

(12) Property and Equipment

Property and equipment are measured and recognized at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Cost includes any other costs directly attributable to bring the assets to a working condition for their intended use and the costs of dismantling and removing the assets and restoring the site on which they are located.

The cost of replacing a part of property and equipment is included in the carrying amount of the asset or recognized as a separate asset, as necessary, if it is probable that the future economic benefits embodied within the part will flow into the Group and if the cost can be reliably measured. Accordingly, the carrying amount of the replaced part is derecognized. The costs of day to day servicing of property and equipment are recognized in profit or loss as incurred.

Land and assets held within construction-in-progress are not depreciated. Depreciation of property and equipment is computed using the straight-line method based on the depreciable amount of the assets over their respective useful lives as provided below. A component that is significant compared with the total cost of an item of property and equipment is depreciated separately over its useful life.

Gains or losses arising from the derecognition of an item of property and equipment are determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item and recognized in other operating income or expenses.

The estimated useful lives for the years ended December 31, 2016, 2017 and 2018 are as follows:

	<u>Estimated useful lives (years)</u>
Equipment (mainly consist of servers) . . . . .	3–5
Furniture and fixtures . . . . .	3–5
Others . . . . .	3–5

Depreciation methods, useful lives and residual values are reviewed at each fiscal year-end and adjusted, as appropriate, if expectations differ from previous estimates. The change is accounted for as a change in an accounting estimate.

(13) Borrowing Costs

The Group capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are expensed as incurred. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale.

To the extent that the Group borrows funds specifically for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group shall determine the amount of borrowing costs eligible for capitalization by

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**3. Significant Accounting Policies (continued)**

(13) Borrowing Costs (continued)

applying a capitalization rate to the expenditures on that asset, which is the effective interest rate of the general borrowing. The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Group capitalizes during a period shall not exceed the amount of borrowing costs incurred during that period. No borrowing costs were capitalized during the years ended December 31, 2016, 2017 and 2018.

(14) Intangible Assets

Intangible assets are initially measured at cost, and carried at cost less accumulated amortization and accumulated impairment losses after initial recognition.

Within intangible assets with finite lives, customer relationships are amortized by the declining balance method and other intangible assets with finite lives are amortized using the straight-line method over the useful lives of the respective assets as provided below. Intangible assets with finite lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The residual value of intangible assets is assumed to be zero.

The estimated useful lives for the intangible assets with finite lives for the years ended December 31, 2016, 2017 and 2018 are as follows:

	<u>Estimated useful lives (years)</u>
Software . . . . .	2–10
Customer relationships . . . . .	7
Domain name . . . . .	20
Others . . . . .	1–10

The amortization periods and methods for intangible assets with finite useful lives are reviewed at each fiscal year-end. If expectations differ from previous estimates, the changes will be accounted for as a change in an accounting estimate.

*Research and development*

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditures are recognized in profit or loss as incurred.

No significant development expenditure was capitalized for the years ended December 31, 2016, 2017 and 2018.

(15) Leases

*Lease Transactions*

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. In the event that fulfillment of the arrangement is dependent on the use of

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**3. Significant Accounting Policies (continued)**

(15) Leases (continued)

*Lease Transactions (continued)*

specific assets or the arrangement transfers a right to use the asset, such assets are defined as a lease transaction.

(a) Finance Leases

Leases that transfer substantially all risks and benefits of ownership of the leased item to the lessee are classified as finance leases.

*Group as lessee*

Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the lessee's incremental borrowing rate shall be used. The minimum lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. A leased asset is depreciated over the shorter of the estimated useful life of the asset or the lease term.

(b) Operating Leases

All lease arrangements, except finance leases that have been capitalized in the Consolidated Statements of Financial Position, are classified as operating leases.

*Group as lessee*

For operating lease transactions, lease payments are recognized as an expense using the straight-line method over the lease term in the Consolidated Statements of Profit or Loss.

*Group as lessor*

The Group had cancelable lease contracts related to servers, data storage, network equipment, personal computers and software with third parties for the years ended December 31, 2016, 2017 and 2018. The leased assets are included in "Property and equipment" in the Consolidated Statements of Financial Position and are depreciated over their expected useful lives on a basis consistent with similar assets included in property and equipment. Income from operating leases (net of any incentives given to the lessee) is recognized on a straight-line basis over the lease term.

(16) Impairment of Financial Assets

The Group assesses the expected credit losses associated with its debt instruments measured at amortized cost and FVOCI. The impairment methodology used for estimating expected credit losses depends on whether there has been a significant increase in credit risk after the initial recognition. The Group measures the expected credit losses for the debt instruments measured at amortized cost and FVOCI for which there have been no significant increase in credit risk at the amount equal to twelve-month expected credit losses at the reporting date. For the financial assets measured at amortized cost and FVOCI for which there have been

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**3. Significant Accounting Policies (continued)**

(16) Impairment of Financial Assets (continued)

significant increase in credit risk, the Group measures the expected credit losses at the amount equal to the lifetime expected credit losses. The Group uses default ratio calculated based on historical default data of corporate bond ratings in Japan to measure the twelve-month expected credit loss and the lifetime expected credit losses.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from the initial recognition of the trade receivables. The expected credit risk of trade receivables are measured using the default ratio calculated based on the Group's historical experiences on cash collection from trade receivables.

In calculating the expected credit losses, the Group may consider the following forward-looking information:

- external credit rating (as far as available)
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to perform its obligations
- actual or expected significant changes in the operating results of the customer or the counterparty
- significant increase in credit risk of the customer or the counterparty

(17) Impairment of Non-Financial Assets

The Group's non-financial assets, which include tangible assets and intangible assets with definite useful lives, but exclude deferred tax assets and non-current assets held for sale, are reviewed for impairment at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. In addition, annual impairment tests are performed for goodwill and intangible assets with indefinite useful lives.

If it is impossible to measure the individual recoverable amount of an asset, then the Group estimates the recoverable amount of the cash-generating unit ("CGU"). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or CGU is the greater of its value in use or its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate to the estimated future cash flows expected to be generated by the asset or CGU. Such pre-tax discount rate reflects current market assessments of the time value of money and the risks specific to the asset or the CGU for which estimated future cash flows have not been adjusted.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

*Goodwill*

Goodwill acquired in a business combination is, from the acquisition date, allocated to each CGU that is expected to benefit from the synergies arising from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. A CGU to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**3. Significant Accounting Policies (continued)**

(17) Impairment of Non-Financial Assets (continued)

*Goodwill (continued)*

recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Impairment losses are recognized in profit or loss, and impairment losses recognized for goodwill are not reversed in subsequent periods. On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the gain or loss on disposal.

(18) Employee Compensation

(a) Short-term employee compensation

Short-term employee compensations are employee compensations that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service. The undiscounted short-term employee compensations are accounted for on an accrual basis over the period in which employees have provided the services.

(b) Defined benefit plans

The Group has defined benefit plans for employees of subsidiaries located in Korea, Taiwan and Thailand. A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's obligation represents the estimated amount of future benefits that employees have earned in return for their services in the current and prior periods. The calculation is performed annually by an independent actuary using the projected unit credit method. The calculation is reviewed and approved by the management of the Group.

The assets or the liabilities relating to the defined benefit plans were recognized in the Consolidated Statement of Financial Position as the present value of obligations as of the reporting date, excluding the fair value of plan assets.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period. Past service cost, which is the change in the present value of the defined benefits obligation for employee services in prior periods, resulting in the current period from the introduction of, or change to post-employment benefits, is recognized in full in profit or loss in the period in which the plan amendment occurs.

Remeasurement of the net defined benefit liability is mainly comprised of actuarial gains and losses resulting from experience adjustments and the effects of changes in actuarial assumptions. Experience adjustments are the effects of differences between the previous actuarial assumptions and what has actually occurred. The Group recognizes all remeasurements of the net defined benefit liability in other comprehensive income when incurred.

The discount rate used in the present valuation calculation is the yield at the reporting date on high-quality corporate bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

Net interest on the net defined benefit liability is determined by multiplying the net defined benefit liability by the discount rate noted above, taking account of any changes in the net defined benefit liability during the reporting period, as a result of contribution and benefit payments. Interest on the net defined benefit liability is recognized in profit or loss.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**3. Significant Accounting Policies (continued)**

(18) Employee Compensation (continued)

(c) Defined contribution plans

The Group has defined contribution plans for employees of subsidiaries located in Korea. The contribution relating to the plans is recognized as expense when incurred.

(19) Share-based Payments

The Group has granted stock options to directors and employees. The fair values of the stock options are measured at the grant dates. Compensation expenses related to stock options are recognized over the vesting period. Refer to Note 4 Significant Accounting Judgments, Estimates and Assumptions and Note 27 Share-based Payments for more details on the valuation methodology of stock options and the assumptions used in such valuation.

The Group has introduced equity-settled Employee Stock Ownership Plan (J-ESOP) and granted points to its employees based on the Group's Regulations on Stock Compensation. The fair values of the points are measured at the grant date. Employee compensation expenses related to this plan are recognized over the vesting period. Refer to Note 27 Share-based Payments for more details on the valuation methodology of points and the assumptions used in such valuation.

The Group has introduced cash-settled Employee Stock Ownership Plan (J-ESOP) and granted points to its employees based on the Group's Regulations on Stock Compensation. The fair values of the liabilities related to the points are measured at each reporting date. Employee compensation expenses related to this plan are recognized over the vesting period and changes to the fair value of the liabilities are recognized through profit or loss. Refer to Note 27 Share-based Payments for more details on the valuation methodology of points and the assumptions used in such valuation.

(20) Marketing Expenses

The Group incurs marketing expenses to increase brand awareness and to promote the launch of new services. The Group's marketing expenses are primarily related to advertising in mass media, namely television advertising and advertising on mobile applications, and expenses incurred for brand promotional events. Marketing personnel compensation expenses are not included in marketing expenses, and are recorded as part of the employee compensation expenses. Expenditures related to marketing activities are recognized as expenses when incurred.

(21) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

There are uncertainties about the amount and timing of the cash outflows related to provisions. The risks and uncertainties that inevitably surround events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

The Group's provisions mainly consist of provisions for restoration obligations for leased property, and provisions for the licensing expense payable to the third-party partners upon redemption of virtual credits and LINE points granted without charge upon exchange of virtual items by customers in the future.

## LINE Corporation

### Notes to Consolidated Financial Statements (continued)

#### 3. Significant Accounting Policies (continued)

##### (21) Provisions (continued)

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

A provision may only apply to expenditures for which the provision was originally recognized.

##### (22) Revenue

The Group mainly operates a cross-platform messenger application, “LINE”, and provides other services including advertising services, sales of communication and content, and LINE character related merchandise sales. Advertising services are provided on the LINE platform through advertising products such as LINE Official Accounts and Sponsored Stickers, as well as the Group’s web portals, livedoor and NAVER Matome. Sales of communication and contents are primarily made to end users in the form of communication products such as LINE Stickers, and contents such as LINE Games. Refer to Note 5 Segment Information for more details on product lines and services provided.

The Group recognizes revenues associated with the transactions by reference to the stage of completion of the transactions at the end of the reporting period. Determination of the stage of completion for the different revenue streams is described below. Revenue is measured at the fair value of the consideration of services provided in the ordinary course of business, less applicable sales and other taxes, where appropriate.

##### *Contract Liability*

The Group’s contract liabilities consist of unsatisfied performance obligations and virtual credits arising from advertising services, communication and content sales.

##### *Virtual Credits*

Virtual credits, which are the prepaid payment instruments may be purchased with credit cards or cash. Depending on the type of service, end users may make payments using cash, credit cards or the virtual credits issued by the Group. Most of the end-user purchases are processed through payment processing service providers such as Apple App Store and Google Play. A processing fee is charged by the payment processing service providers for each transaction processed which are recognized as “payment processing and licensing expenses” on the Group’s Consolidated Statements of Profit or Loss. Upon the initial sales of the Group’s virtual credits, the Group records proceeds received as contract liabilities on the Consolidated Statements of Financial Position. As prescribed in the terms and conditions between the Group and end users, the Group’s virtual credits are not refundable. However, in the event that the Group discontinues its operations, the Japanese Payment Services Act (Act No. 59 of 2009, the “Payment Services Act”) may require the Group to refund the advances received to the end users. When virtual credits are redeemed for the purchase of the virtual items within each services in the Group by users, balances of the end users’ virtual credits may be reduced by the price of the purchase, and the related contract liabilities are reclassified to revenues over the applicable revenue recognition periods, as described in the following paragraphs. The total amount of revenues recognized is ultimately equivalent to the gross amount of consideration paid by the end users.



LINE Corporation

Notes to Consolidated Financial Statements (continued)

**3. Significant Accounting Policies (continued)**

(22) Revenue (continued)

Core Business

(i) Advertising

The Group's advertising services mainly consist of accounts advertising, display advertising and other advertising such as web portals.

Accounts advertising

Accounts advertising mainly includes LINE Official Accounts, LINE Sponsored Stickers and LINE Point Ads services.

LINE Official Accounts enable commercial and other advertisers to send messages directly to LINE users who have added the business as a friend. The performance obligation of the Group to advertisers is to maintain the LINE Official Account through the contract period and enable end users to send messages to the LINE Official Accounts at any time during the contract period. Accordingly, the Group recognizes the LINE Official Accounts subscription revenues on a straight-line method over the advertising contract period. In addition, advertisers with LINE Official Accounts may offer Sponsored Stickers to LINE users, who may download them for free. In the LINE Sponsored Stickers contract, only the advertisers are obligated to pay the Group consideration for Sponsored Stickers services, and end users that use Sponsored Stickers do not pay any consideration to the Group, directly or indirectly. Therefore, the Group has determined that only the advertisers are considered "customers". The performance obligation of the Group to advertisers is to make Sponsored Stickers available to the users for their use at any time over the contract period. Accordingly, the Group recognizes revenues on a straight-line method over the contract period.

The LINE Point Ads service is a pay-per-action advertising service offered by the Group. Advertisers pay the Group a predetermined fixed fee per specific action taken by end users, such as the successful downloading of an application or viewing of a commercial. In exchange, the Group publishes the applications or commercials produced by the advertisers on the LINE platform, and issues LINE Points to the end users without charge. The Group has determined that only the advertisers are customers for LINE Point Ads services because only the advertisers pay the transaction 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. For this situation, the Group considers its performance obligation in its contract with its customers (i.e. the advertiser), as its advertisement services which includes issuing LINE Points to users who have taken specific actions agreed with advertisers since the Group does not have any obligations toward the advertisers to manage LINE Points or to provide users other services in exchange for the LINE Points. As a result, the Group recognizes revenue at the time LINE Points are issued to users as the Group's performance obligation toward the advertisers is satisfied upon issuance of LINE points. For the LINE points granted without charge to the users, the Group recognizes the expenses as provisions at the same time as LINE points are issued.

Until the year ended December 31, 2017 and prior to the adoption of IFRS 15, the Group recognized revenue from LINE Point Ads service in the period in which an end user takes the action the advertisers contracted for, excluding the portion of revenue attributable to the LINE Points issued by the Group. The portion of the revenue attributable to LINE Points was measured at the fair value of LINE Points. Revenue related to unused LINE Points at the end of the reporting period was deferred, while revenue related to the redeemed LINE Points was recognized in accordance with the revenue recognition policy for the virtual item purchased. The fair value of LINE points is estimated based on the amount required for a user to settle a transaction.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**3. Significant Accounting Policies (continued)**

(22) Revenue (continued)

Accounts advertising (continued)

Display Advertising

Display advertising mainly consists of Timeline and LINE NEWS. The Group has contractual relationships with advertisers for which it provides the Group with rights to receive compensation based on specific actions by users such as impressions, views, and clicks. The Group's performance obligation is to present the advertisement to users at any given time. The display advertising revenues are recognized when such actions specified the contract are fulfilled.

Other Advertising

Other advertising services mainly consist of job listing and web portal advertising. The Group's performance obligation is to publish advertisements and/or presenting the advertisements to users. Revenues from such advertising services are recognized over the advertising contract periods on a straight-line method if the contract is for a certain period of time. If the advertising contract includes the rights to receive payments based on specific actions such as impressions, views and clicks, the Group recognizes revenue under such specific actions under the contract are fulfilled.

For advertising services such as LINE Official Accounts, an advertising agency may be involved to obtain contracts from customers and provide, on behalf of the Group, services to customers such as formatting advertisement publications to comply with the Group's specification or standards of advertisement publications. Since the service provided by an advertising agency 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 in the transaction. The Group recognizes revenue based on the total consideration received from a customer, including the consideration payable for the service provided by the advertising agency.

Moreover, in considering that the consideration payable for the aforementioned services provided by the advertising agency is the cost arising in relation to the contract with the advertiser as a customer, the Group recognizes costs of contract which consist of consideration payable to the advertising agency as an asset and such costs are expensed as 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 recognized, and such cost will be expensed during the period that related revenue of the advertising contract is recognized.

(ii) Communication

Communication includes primarily LINE Stickers, LINE Creator Stickers and emoji (collectively, "the Stickers"). The Stickers are emoticons that end users may purchase and use in instant messaging. Payments may be made with cash, virtual credits, LINE Points or credit cards.

When virtual credits are redeemed for the purchase of the Stickers, the end users' virtual credits balances are reduced by the price of the purchase, and the virtual credits redeemed are recognized as revenues over the estimated usage period for the Stickers. The Group acts as a principal in providing the Stickers to end users. The Group determines that Stickers are a 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 the Stickers 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 satisfied over a certain period of time. The Group estimated such usage

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**3. Significant Accounting Policies (continued)**

(22) Revenue (continued)

Other Advertising (continued)

(ii) Communication (continued)

period to be 90 days based on the historical usage pattern. The Group also determined that the users receive the benefits of the services evenly, thus the Group recognizes revenue on a straight-line method over the estimated usage period.

(iii) Content—LINE Games and Applications

Content mainly consists of LINE Games developed by the third party or the Group and applications developed by the Group.

– Games developed by third-party game developers

All games developed by third-party game developers are free to download from the LINE platform. End users may purchase in-game virtual items with cash or credit cards.

The Group enters into revenue sharing arrangements with the third-party game developers. The terms of such arrangements provide that when end users purchase in-game virtual items sold by the game developer via the LINE platform, the Group receives a fixed percentage of the net proceeds received from payment processing service providers.

With respect to the sale of in-game virtual items to end users, the Group has determined that the third-party game developer is the primary obligor for the game-related services, as the third-party game developers have the primary responsibility for creating the in-game virtual items which end users may purchase and use in the mobile games, and developing, maintaining and updating the mobile games.

The Group views the third-party game developers to be its customers, and the Group's deliverables to its customers over the term of the game are: 1) channeling users to the mobile games, 2) providing payment processing services, and 3) providing server hosting services.

The Group determined that each deliverable was a separate unit of account and measured each selling price of channeling services, payment processing services and server hosting services based on the ratio of stand-alone selling price. The stand-alone selling price for the channeling services and server hosting services are estimated based on the cost-plus-margin pricing, taking into consideration other stand-alone terms and conditions, historical costs, and the industry profit margin range of our competitors. The Group also estimates the stand-alone selling price for the payment processing services based on the cost-plus-margin pricing, taking into consideration historical costs and the industry profit margin range of our competitors.

The Group's performance obligations with respect to channeling services are fulfilled at the time that the in-game virtual item is purchased by an end user and accordingly, the revenues attributable to the channeling services are recognized at the time of purchase.

Game termination announcements are made by sending notifications to end users two months prior to game termination. Once the game termination announcement is made, in-game virtual items are no longer available for purchase, but the game is still available to end users for the remaining two-month period and the payment will be made three months after the purchase of the in-game virtual items. Accordingly, subsequent to the announcement of game termination, the

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**3. Significant Accounting Policies (continued)**

(22) Revenue (continued)

Other Advertising (continued)

(iii) Content—LINE Games and Applications (continued)

– Games developed by third-party game developers (continued)

Group is required to provide services for a total of three additional months; two additional months of hosting services, i.e. up until game termination, and three additional months of payment processing services, i.e. up until one month after game termination, as payment processing services are provided on a three-month time lag.

The Group's performance obligations with respect to the hosting services and payment processing services are fulfilled each month as such services are provided, i.e. from game inception through game termination, and from game inception through one month subsequent to game termination, respectively. Accordingly, the revenues attributable to the hosting services and payment processing services are recognized on a straight-line basis over the service periods as described above. However, as the Group does not generate revenues subsequent to the announcement of game termination, the Group defers the revenue attributable to the post-termination-announcement performance obligations for hosting services and payment processing services from the amounts received in the first month of the arrangement, and recognizes such revenues over the two and three months, respectively, following the announcement of game termination.

The Group began providing third party games on its platform in 2012. As of December 31, 2018, the average life of third party games, which included both active and terminated third party games, was approximately 21 months.

– Internally developed games and applications

Principal vs Agent

The Group also provides games and applications (“apps”) developed internally for end users, and considers itself the principal in providing the games or apps to end users. The Group's primary responsibility is to develop, maintain and provide the games and apps, and in-game/in-app virtual items to end users.

Consumable and durable virtual items

All games and apps are free to download; however, in-game/in-app virtual items developed by the Group may be purchased with cash, credit cards or the Group's virtual credits within the games/apps. The Group offers both consumable and durable virtual items in its internally developed games and apps.

Revenue recognition for consumable virtual items

The characteristics of consumable virtual items include virtual items that are consumed by end users' specific actions and do not provide end users with any continuing benefits. The consumable virtual items offered by the Group is comparable to a service of standing ready and the performance obligation of the Group with respect to the consumable virtual items purchased by end users is to make the consumable virtual items available to the users for their use at any given time. The period from the time the end user first purchased the consumable virtual item until the

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**3. Significant Accounting Policies (continued)**

(22) Revenue (continued)

Other Advertising (continued)

(iii) Content—LINE Games and Applications (continued)

- Internally developed games and applications (continued)

Revenue recognition for consumable virtual items (continued)

user consumed the item is the performance obligation period; however, consumable virtual items offered by the Group are generally consumed upon purchase by end users. Accordingly, the Group recognizes revenues attributable to consumable virtual items upon sale.

Revenue recognition for durable virtual items

A durable virtual item represents an item that provides the end user with continuing benefits. The durable virtual items offered by the Group is comparable to a service of standing ready and the performance obligation of the Group with respect to the durable virtual items purchased by end users is to make the durable virtual items available to the users for their use at any given time. The period of benefit of a durable virtual item generally ends at the earliest of 1) an item ceasing to provide further benefits to an end user (i.e., the period of benefit is represented by the usage period of such item), 2) an item being removed from the game board or app, by specific in-app/ in-game actions taken by an end user, or 3) an end user abandoning the game or app. Accordingly, the Group determines that revenue attributable to durable virtual items is recognized either a) on a straight-line basis over the estimated usage period, or b) when the Group cannot estimate the estimated usage period upfront, on a straight-line basis over the estimated average playing period of paying users adjusted for any virtual items removed from the game board or app.

- (a) Revenue recognition for the estimated usage period of the durable virtual items

The estimated usage period for durable virtual items is developed by taking into consideration historical data on purchase patterns and user usage behavior. For the years ended December 31, 2016, 2017 and 2018, the Group recognizes revenues through the estimated usage period for durable virtual items in one of the internally developed games. For the years ended December 31, 2016, 2017 and 2018, the usage periods were estimated to be a several days and the sales generated by such durable items were immaterial.

- (b) Revenue recognition for the durable virtual items which the estimated usage period cannot be estimated

- (1) Revenue recognition by estimating average playing period

The Group defines the playing period as the period from when a paying user first purchased virtual credits to when a paying user is deemed to have become inactive, i.e. when a paying user has not logged onto the game/app for two consecutive months. To estimate the average playing period for a paying user, the Group analyzes monthly cohorts composed of paying users who made their first purchase of virtual credits during such month. The Group tracks these monthly cohorts and analyzes the dates on which paying users within each cohort become inactive. Based on the actual data observed, the Group extrapolates the future declines in paying users to determine the ending point of a paying user's life beyond the date for which observable data is

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**3. Significant Accounting Policies (continued)**

(22) Revenue (continued)

- (b) Revenue recognition for the durable virtual items which the estimated usage period cannot be estimated (continued)

- (1) Revenue recognition by estimating average playing period (continued)

available. The Group then uses the actual and extrapolated data to calculate the average playing period. The Group recognizes revenues arising from internally developed apps by using the estimated average playing periods. For the years ended December 31, 2016, 2017 and 2018, the estimated average playing periods ranged from approximately 8 months to 28 months, 2 months to 30 months and 15 months to 30 months, respectively.

- (2) Adjustment of the items removed from the game board or app

Revenue attributable to the durable virtual items removed from the game board or app is recognized by developing estimated removal rates, i.e. the rates at which durable virtual items are being removed from the game board or app by end users, and applying such rates to total sales generated from durable virtual items.

Recognition of revenue upon launching a new game or app

Upon launching a new game/app, the Group evaluates the nature of the virtual items, the behavior of end users with respect to such items and the availability of supporting data in determining the related revenue recognition policy. The Group may also consider other existing internally developed games/apps data and industry data in determining the related revenue recognition policy if insufficient history has been developed for such new game/app. In the situation where the Group does not have sufficient data to analyze user behavior, and cannot identify any similar games/apps to serve as references for the Group to reasonably estimate the life of the game/app, the Group defers all sales until such history is developed. Once sufficient history is developed, the Group assesses the estimations (such as the estimated usage period and the estimated average playing period for paying users), for durable virtual items quarterly on a game/app by game/app basis.

Estimated revenue for the year ended December 31, 2016

For the year ended December 31, 2016, the Group had one internally developed game for which it had insufficient data to reasonably estimate the average playing period until the beginning of Q2' 2016. Accordingly, for the purpose of recognizing revenue for this game, the Group deferred all the revenue arising from sale of durable virtual items and only recognized revenue attributable to the consumable virtual items for the quarters ended March 31, 2016. Beginning of Q2' 2016, the Group determine that it had sufficient history to reasonably estimate the average playing period for such game. Accordingly, the Group began recognizing revenues for durable virtual items which continued to be available to end users over the average playing period for this game.

Also, in Q3' 2016, the Group launched an internally developed game for which it has insufficient data to reasonably estimate the average playing period until the end of Q4' 2016. Accordingly, for the purpose of recognizing revenue for this game, the Group only recognized revenue attributable to the sale of consumable virtual items and deferred all the revenues from sale of durable virtual items.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**3. Significant Accounting Policies (continued)**

(22) Revenue (continued)

(b) Revenue recognition for the durable virtual items which the estimated usage period cannot be estimated (continued)

(2) Adjustment of the items removed from the game board or app (continued)

Estimated revenue for the years ended December 31, 2017 and 2018

For the period ended December 31, 2017 and 2018, the Group recognized revenues for virtual items which continued to be available to end used over the average playing period for this game, as it has sufficient history to reasonably estimate the average playing period for all internally developed games.

Strategic business

LINE Friends

Revenues from LINE Friends primarily consist of the sales of LINE character merchandise. Revenue from the sale of goods is mainly recognized when customers obtain control over the goods, usually on delivery of the goods. Revenue from the sale of goods is measured at transaction price, adjusted for any discounts.

Significant financing components

There are no significant financing components (i.e. payment terms exceeding one year) within the services provided to customers by the Group.

(23) Finance Income and Finance Costs

Finance income mainly comprises interest income from time deposits and held-to-maturity investments. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on corporate bonds and borrowings and unwinding of the discount on provisions. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

(24) Other Non-Operating Income and Expenses

For the year ended December 31, 2016 and 2017

Other non-operating income comprises dividend income, gains on the disposal of available-for-sale financial assets, and changes in the fair value of financial assets at fair value through profit or loss. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established.

Other non-operating expenses comprise changes in the fair value of financial assets at fair value through profit or loss, and impairment losses recognized on available-for-sale financial assets.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**3. Significant Accounting Policies (continued)**

(24) Other Non-Operating Income and Expenses (continued)

For the year ended December 31, 2018

Other non-operating income comprises dividend income, changes in the fair value of financial assets at fair value through profit or loss. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established.

Other non-operating expenses comprise changes in the fair value of financial assets at fair value through profit or loss.

(25) Income Taxes

Income tax expenses comprise current and deferred tax. Current tax and deferred tax are recognized in profit or loss, except to the extent that they relate to a business combination, or items recognized directly in equity or in other comprehensive income.

(a) Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit.

(b) Deferred tax

Deferred tax is recognized using the asset-liability method in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax liability is recognized for all taxable temporary differences. A deferred tax asset is recognized for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which they can be utilized. However, deferred tax is not recognized for the following temporary differences: taxable temporary differences arising on the initial recognition of goodwill, or the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit or loss nor taxable income.

The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Group recognizes a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries, associates and joint ventures, to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.



LINE Corporation

Notes to Consolidated Financial Statements (continued)

**3. Significant Accounting Policies (continued)**

(25) Income Taxes (continued)

(b) Deferred tax (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow, in a manner that the Group expects, at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied on the same taxable entity by the same tax authority.

(26) Earnings per Share

The Group presents basic and diluted earnings per share (“EPS”) data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to the holders of common shares of the Company by the weighted average number of common shares outstanding during the year, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to the holders of common shares and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential common shares, such as stock options granted to directors and employees of the Group. Potential common shares are antidilutive when their conversion to common shares would increase earnings per share or decrease loss per share from continuing operations. The calculation of diluted earnings per share does not assume conversion, exercise, or other issue of potential common shares that would have an antidilutive effect on earnings per share.

(27) Operating Segments

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.

(28) Discontinued Operations and Non-current Assets Held for Sale

Discontinued operations are reported when a component of an entity comprising operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity is classified as held for sale or has been disposed of, if the component either (1) represents a separate major line of business or geographical area of operations and (2) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or (3) is a subsidiary acquired exclusively with a view to resale.

The Group determined to dispose its MixRadio business in February 2016. In the Consolidated Statements of Profit or Loss, (loss)/profit from the discontinued operations is reported separately from profit/(loss) from continuing operations; prior periods are presented on a comparable basis. The cash flows from discontinued operations are presented in Note 23 Discontinued Operations. References made to the Consolidated

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**3. Significant Accounting Policies (continued)**

(28) Discontinued Operations and Non-current Assets Held for Sale (continued)

Statements of Profit or Loss, except for those noted in Note 23 Discontinued Operations, are related to continuing operations.

In the event that certain non-current assets and disposal groups whose carrying values will be recovered principally through a sale rather than through continuing use, such non-current assets and disposal groups are classified as held for sale. Non-current assets or disposal groups classified as held for sale or held for disposal are measured at the lower of their carrying amount or fair value less costs to sell, unless these items presented in the disposal group are not part of the measurement scope as defined in IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

(29) Standards Issued but not yet Effective

The standards and interpretations that are issued but not yet effective as of December 31, 2018 are disclosed below. The standards and interpretations issued but not yet effective has not been adopted early by the Group.

– IFRS 16 *Leases*

The IASB issued IFRS 16 Leases. IFRS 16 governs the accounting for leases and the related contractual rights and obligations. Lessees will no longer make a distinction between finance and operating leases as they have been required to do thus far under IAS17. At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. The Group will adopt IFRS 16 for the annual reporting period beginning on January 1, 2019, which is the mandatory effective date. The Group intends to use simplified approach and does not plan to restate the amounts in the comparable reporting periods prior to adoption of IFRS 16. So far, the most significant impact identified is that the Group will recognize new right-of-use assets and lease liabilities for its operating leases of certain office space and stores. In addition, the nature of expenses related to those leases will change as a lease expenses shall be recognized with depreciation charge for the right-of-use asset and interest paid on the lease liability under IFRS 16, replaced from the straight-line operating expense with IAS 17.

On the reporting date, the Group expected to recognize the right-of-use assets and lease liabilities approximately 52 billion yen as of January 1, 2019 due to the adoption of IFRS 16. The operating lease expenses are expected to decrease by approximately 10 billion yen, and total in depreciation expenses of the right-of-use assets and interest expenses on lease liabilities are expected to increase by approximately 10 billion yen. As of the reporting date, the Group bears commitments of 58,688 million yen for non-cancellable operating leases (refer to Note 17 Lease-Group as Lessee). Due to the adoption of IFRS 16, cash flows from operating activities are expected to increase by approximately 10 billion yen and cash flows from financing activities are expected to decrease by approximately 10 billion, compared to those under IAS 17, due to the principal payment of lease liabilities being classified to the cash flows from financing activities.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**3. Significant Accounting Policies (continued)**

(30) New and Amended Standards and Interpretations

The impacts of the adoption of new and revised IFRSs issued by the IASB that are mandatorily effective for an annual period beginning on or after January 1, 2018 on the Group's annual consolidated financial statements as of December 31, 2016 and 2017, and for the years ended December 31, 2016, 2017 and 2018, are as follows.

Standards that are effective for annual period beginning on or after January 1, 2018:

1. *IFRS15 Revenue from Contracts with Customers*

The IASB issued IFRS 15 *Revenue from Contracts with Customers*. 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 sale as well as advertising services by reference to the stage of completion. The Group has concluded that the previous 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")

Under the new standard, the timing of revenue recognition changed whereby revenue is recognized over an estimated usage period on a straight-line basis. Under the previous method, the Group recognized revenue on an accelerated basis which weighted revenue recognition towards the earlier part of the period to reflect the usage pattern of Stickers by users.

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 fulfilled throughout a certain period of time.

As the Group determines that the end users receive the benefit of the services evenly throughout the estimated usage period of the Stickers, the Group assessed that the 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 year ended December 31, 2018.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**3. Significant Accounting Policies (continued)**

(30) New and Amended Standards and Interpretations (continued)

(2) LINE Sponsored Stickers

Under the new standard, the timing of revenue recognition changed whereby revenue is recognized over an estimated usage period on a straight-line basis. Under the previous method, the Group recognized revenue on an accelerated basis which weighted revenue recognition towards the earlier part of the period to reflect the usage pattern of Stickers by users.

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 to the users, 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 progress based on the method which reflects the satisfaction of performance obligations to customers for all contracts with 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 given time over a contract period. Accordingly, the Group has assessed that a straight-line method over a contract period is the best method for measuring its 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 year ended December 31, 2018.

(3) LINE Point Ads

Previously, the Group recognized the LINE points granted to users through the LINE Point Ads at fair value as advances received. Under the new standard, in addition to the revenue recognized, the Group accrues the cost incurred when the LINE Points granted are consumed by users.

Under the previous standard, revenue attributable to LINE Points granted were measured at fair value of the LINE Point in accordance with IFRIC 13 even if such points granted through LINE Point Ads were granted to users rather than the Group's customers as the Group received the consideration. The unused LINE Points are recognized as advances received.

On the other hand, IFRS 15 clearly defines a "customer" as mentioned above. Upon the adoption of IFRS 15, the Group identifies its advertisers as customers for its LINE Point Ads service as the considerations are only provided by the advertisers and there is no other consideration provided directly or indirectly by the users which LINE Point Ads are granted to. For this situation, the Group considers its performance obligation in its contract with its customers (i.e. the advertiser), as its advertisement services which includes issuing LINE Points to users who have taken specific actions agreed with advertisers since the Group does not have any obligations toward the advertisers to manage LINE Points or to provide users other services in exchange for the LINE Points. As a result, the Group

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**3. Significant Accounting Policies (continued)**

(30) New and Amended Standards and Interpretations (continued)

(3) LINE Point Ads (continued)

recognizes revenue at the time LINE Points are issued to users as the Group's performance obligation towards the advertisers is satisfied upon issuance of LINE points. For the LINE points granted without charge to the users, the Group recognizes the expenses as provisions at the same time as LINE points are issued. 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 year ended December 31, 2018.

(4) Presentation of advertisements

For advertising services such as LINE Official Account, an advertising agency may be involved to provide, on behalf of the Group, services to customers such as formatting advertisement publication to comply with the Group's specification or standards of advertisement publication. In such transaction, the Group earns the consideration received from customers excluding the share of advertising agencies.

Under the previous standard, the share attributable to the advertising agency was identified as an individually identifiable element and the Group recognized revenue excluding such shares from the total consideration received from customers as the Group earned a certain portion of the consideration received, and did not directly provide the service nor they bare credit risk of the shares of the advertising agency.

On the other hand, IFRS 15 reconfigure the evaluation of whether an entity is a principal or an agent based on the identification of performance obligations and transfer of control for services. Specifically, the guidance states that "an entity is a principal if it controls the specified goods or service before that good or service is transferred to a customer" and further enhances the guidance and related interpretations related to whether the entity controls the rights to goods or services provided by other parties. This includes situations where the entity has the ability to direct other parties to perform services to the customer on the entity's behalf. Since the services provided by the advertising agencies such as formatting advertisement publications are provided to customers based on the Group's specifications or standards for advertisement publications, the Group determined that the Group controls the services provided by the advertising agencies and thus the Group is deemed as the principal. Due to the factors above, the Group changed the method of revenue recognition to recognize the total consideration received from the customer, including the services provided by the advertising agencies. As a result, compared to the previous method, the amount of revenue recognized by the Group increased by 8,837 million yen for the year ended December 31, 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 such costs are expensed as the related revenues are recognized. If the advertising contract is renewed at the end of the original term, consideration payable to the advertising agency will be incurred again, and such costs will be expensed during the period that related 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 year ended December 31, 2018. However, as sales commission expenses increased by the same amount as the revenues, there is no impact on the profit from operating activities.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**3. Significant Accounting Policies (continued)**

(30) New and Amended Standards and Interpretations (continued)

(4) Presentation of advertisements (continued)

As a result, the opening balance of accumulated deficit is adjusted as follows.

(In millions of yen)

	<b>January 1, 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 such as LINE Points and in deferred revenue associated with the Stickers or advertising services are reclassified into other financial liabilities, current and contract liabilities.

(In millions of yen)

	<b>January 1, 2018 (under IAS 18 and other)</b>	<b>Reclassification</b>	<b>Remeasurement</b>	<b>January 1, 2018 (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)	—	—
Provisions, 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

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**3. Significant Accounting Policies (continued)**

(30) New and Amended Standards and Interpretations (continued)

(4) Presentation of advertisements (continued)

*(In millions of yen)*

	<b>December 31, 2018</b> <b>(under IAS 18</b> <b>and other)</b>	<b>Reclassification</b>	<b>Remeasurement</b>	<b>December 31, 2018</b> <b>(under IFRS 15)</b>
Trade and other receivables . . . . .	38,772	(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)	—	—
Provisions, 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

LINE Corporation

Notes to Consolidated Financial Statements (continued)

3. Significant Accounting Policies (continued)

(30) New and Amended Standards and Interpretations (continued)

(4) Presentation of advertisements (continued)

(In millions of yen)

	2018 (under IAS 18 and other)	Reclassification	Remeasurement	2018 (under IFRS 15)
Revenue and other operating income				
Revenues . . . . .	197,789	—	9,393	207,182
Other operating income . . . . .	<u>28,099</u>	<u>—</u>	<u>—</u>	<u>28,099</u>
Revenue and other operating income total . . . . .	225,888	—	9,393	235,281
Operating expenses				
Payment processing and licensing 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 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 . . . . .	<u>(40,846)</u>	<u>—</u>	<u>(295)</u>	<u>(41,141)</u>
Operating expenses total . . . . .	<u>(209,972)</u>	<u>—</u>	<u>(9,199)</u>	<u>(219,171)</u>
Profit from operating activities . . . . .	15,916	—	194	16,110
Profit before tax from continuing operations . . . . .	3,160	—	194	3,354
Income tax expenses . . . . .	<u>(9,463)</u>	<u>—</u>	<u>(59)</u>	<u>(9,522)</u>
Loss for the year from continuing operations . . . . .	<u>(6,303)</u>	<u>—</u>	<u>135</u>	<u>(6,168)</u>
Loss for the year . . . . .	<u><u>(5,927)</u></u>	<u><u>—</u></u>	<u><u>135</u></u>	<u><u>(5,792)</u></u>
Attributable to:				
The shareholders of the Company . . . . .	(3,852)	—	134	(3,718)
Non-controlling interests . . . . .	(2,075)	—	1	(2,074)

(In yen)

Earnings per share				
Basic (loss)/profit for the year attributable to the shareholders of the Company . . . . .	(16.19)	—	0.57	(15.62)
Diluted (loss)/ profit for the year attributable to the shareholders of the Company . . . . .	(16.19)	—	0.57	(15.62)
Earnings per share from continuing operations				
Basic (loss)/ profit from continuing operations attributable to the shareholders of the Company . . . . .	(17.77)	—	0.57	(17.20)
Diluted (loss)/profit from continuing operations attributable to the shareholders of the Company . . . . .	(17.77)	—	0.57	(17.20)



LINE Corporation

Notes to Consolidated Financial Statements (continued)

**3. Significant Accounting Policies (continued)**

(30) New and Amended Standards and Interpretations (continued)

(4) Presentation of advertisements (continued)

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” in prior years are presented as a separate line item in the Consolidated Financial Statement of Profit or Loss. As the materiality of authentication expenses decreased, remaining “authentication and other service expenses” is now presented as “outsourcing and other service expenses”. The change was also applied to the Consolidated Financial Statement of Profit or Loss for the year ended December 31, 2016 and 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 instruments 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 credit 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.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**3. Significant Accounting Policies (continued)**

(30) New and Amended Standards and Interpretations (continued)

(4) Presentation of advertisements (continued)

The Group has applied IFRS 9 retrospectively and has determined not to restate the comparative information for the periods prior to 2018. As a result, the comparative information is prepared based on the Group's previous accounting policies. The previous accounting policy is provided in the end Note 3. 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)

	Notes	Balance as of January 1, 2018 under IFRS 9				Total financial assets/liabilities
		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	
<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	7,997	—	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	—	—	1,862
Available-for-sale financial assets	1, 2	15,388	5,262	10,126	—	15,388
Other		133	—	44	89	133
Total		32,084	7,152	18,167	6,804	32,123

LINE Corporation

Notes to Consolidated Financial Statements (continued)

3. Significant Accounting Policies (continued)

(30) New and Amended Standards and Interpretations (continued)

(4) Presentation of advertisements (continued)

	Notes	Impacts by adoption of IFRS 9		
		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)	3
Available-for-sale financial assets .....		—	—	—
Office security deposits .....		—	—	—
Total .....		6	(3)	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	(13)	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	(13)	39

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**3. Significant Accounting Policies (continued)**

(30) New and Amended Standards and Interpretations (continued)

(4) Presentation of advertisements (continued)

(In millions of yen)

	Notes	Balance as of January 1, 2018 under IFRS 9				Total financial assets/liabilities
		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	
<b>Financial liabilities</b>						
<b>Trade and other payables</b>						
Financial liabilities measured at amortized cost . . . . .	3	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

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**3. Significant Accounting Policies (continued)**

(30) New and Amended Standards and Interpretations (continued)

(4) Presentation of advertisements (continued)

	Notes	Impacts by adoption of IFRS 9		
		Fair value measurement at January 1, 2018	Provision at 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 . . . . .		—	—	—

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**3. Significant Accounting Policies (continued)**

(30) New and Amended Standards and Interpretations (continued)

(4) Presentation of advertisements (continued)

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

	<u>Notes</u>	<u>Accumulated deficit</u>	<u>Accumulated other comprehensive income-Financial assets at FVOCI</u>
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 . . . . .		<u>1,300</u>	<u>(1,258)</u>
Balance of accumulated deficit and accumulated OCI as of January 1, 2018 under IFRS 9 . . . . .		<u>(2,994)</u>	<u>2,670</u>

(In millions of yen)

(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. 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 equity instruments 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 equity instruments at FVOCI as the Group has made an irrevocable election 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 investments in corporate bonds of 402 million yen, and investments in partnerships of 2 million yen as of January 1, 2018 were reclassified as the cash flows from these investments solely represents payments of principal and interest on the principal amount outstanding. As based on the Group's business model, such

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**3. Significant Accounting Policies (continued)**

(30) New and Amended Standards and Interpretations (continued)

(4) Presentation of advertisements (continued)

financial assets are held for the purpose of collecting contractual cash flows as well as selling the financial assets for profit, such financial assets were reclassified from available-for-sale financial assets to equity instruments at FVOCI.

(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. There was no impact from this reclassification on retained earnings and other comprehensive income as of January 1, 2018. Also, the amount of expected credit losses arising from those financial assets as of January 1, 2018, were deemed immaterial.

(4) Reclassification from loans and receivables to debt instruments 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 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. 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. There was no impact from this reclassification on retained earnings and accumulated other comprehensive income as of January 1, 2018. The amount of expected credit losses arising from those financial assets as of January 1, 2018, were deemed immaterial.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**3. Significant Accounting Policies (continued)**

(30) New and Amended Standards and Interpretations (continued)

Significant accounting policies prior to adopt IFRS 9 was as follows:

(1) Financial assets

The Group classifies and measures financial assets based on the following four categories: financial assets at fair value through profit or loss; held-to-maturity investments; loans and receivables; and available-for-sale financial assets. The Group recognizes financial assets in the Consolidated Statements of Financial Position when the Group becomes a party to the contractual provisions of the instrument.

Upon initial recognition, financial assets are measured at their fair value plus, in the case of a financial asset not measured at fair value through profit or loss, transaction costs that are directly attributable to the asset's acquisition. Regular way purchases or sales of financial assets, i.e. purchases or sales under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned, are accounted for at the trade date.

(a) Financial assets at fair value through profit or loss

Financial assets are classified as financial assets at fair value through profit or loss if they are held for trading. Upon initial recognition, transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

(b) Held-to-maturity investments

Financial assets with fixed or determinable payments and fixed maturities, for which the Group has the positive intention and ability to hold to maturity, are classified as held-to-maturity investments. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method.

(c) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, except for loans and receivables for which the effect of discounting is immaterial.

(d) Available-for-sale financial assets

Available-for-sale financial assets are those financial assets that are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value, and any changes in fair value, net of any tax effect, are recorded in other comprehensive income in equity. When a financial asset is derecognized or impairment losses are recognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

Dividends on an available-for-sale equity instrument are recognized in profit or loss when the Group's right to receive payment is established.

(e) Derivative financial instruments

The Group may use derivative financial instruments, such as exchange forward contracts, to hedge its foreign exchange risk. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Any



LINE Corporation

Notes to Consolidated Financial Statements (continued)

**3. Significant Accounting Policies (continued)**

(30) New and Amended Standards and Interpretations (continued)

(1) Financial assets (continued)

(e) Derivative financial instruments (continued)

gains or losses arising from changes in the fair value of derivatives are recognized in profit or loss. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Derivative financial instruments embedded in non-derivative host contracts are bifurcated and accounted for as separate derivatives when they meet the definition of a derivative, the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contracts, and the contracts are not measured at fair value through profit or loss.

(f) Derecognition of a financial asset

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

If the Group retains substantially all the risks and rewards of ownership of the transferred financial assets, the Group continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

(2) Financial Liabilities

The Group recognizes financial liabilities in the Consolidated Statements of Financial Position when the Group becomes a party to the contractual provisions of the financial liability. At the date of initial recognition, financial liabilities are measured at fair value, net of transaction costs. Subsequent to initial recognition, financial liabilities are measured at amortized cost using the effective interest method.

(3) Impairment of Financial Assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

Objective evidence that financial assets, including equity securities, are impaired can include significant financial distress of issuers of financial assets or debtors, default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security, or the existence of observable data that shows the negative effect on expected future cash flows of the group of financial assets after the initial recognition can be reliably estimated, though the decrease in expected future cash flows of individual financial assets cannot be reliably estimated.

In addition, for an investment in an equity security classified as an available-for-sale financial asset, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If financial assets have objective evidence that they are impaired, impairment losses should be measured and recognized.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**3. Significant Accounting Policies (continued)**

(30) New and Amended Standards and Interpretations (continued)

(3) Impairment of Financial Assets (continued)

(a) Financial assets measured at amortized cost

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. If it is not practicable to obtain the instrument's estimated future cash flows, impairment losses are measured by using prices from any observable current market transactions. The Group can recognize impairment losses directly or establish a provision to cover impairment losses. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting an allowance account. Financial assets are directly written off when there is no realistic prospect of future recovery.

(b) Available-for-sale financial assets

While other evidence and indicators are taken into consideration, generally, when the fair value of an available-for-sale financial asset is below the acquisition cost consistently for a period of six months or more, or, if the fair value of the available-for-sale financial assets is 20% below its acquisition cost, impairment losses are assessed for such financial asset. When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in gain or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

**4. Significant Accounting Judgments, Estimates and Assumptions**

The preparation of the Group's consolidated financial statements requires the management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures. These estimates and assumptions are based on the best judgment of the management in light of historical experience and various factors deemed to be reasonable as of the fiscal year end date. Given their nature, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**4. Significant Accounting Judgments, Estimates and Assumptions (continued)**

The estimates and assumptions are continuously reviewed by the management. The effects of a change in estimates and assumptions are recognized in the period of the change or in the period of the change and future periods. Among estimates and assumptions made by the management, the following are ones that may have a material effect on the amounts recognized in the consolidated financial statements of the Group:

(a) Impairment

- Non-financial assets

*Non-current assets other than goodwill*

Non-current assets other than goodwill, such as property and equipment, and intangible assets with definite useful lives are assessed for indications of impairment at the end of the reporting period. The Group evaluates both internal and external sources of information to assess whether impairment indicators exist. Some of the impairment indicators are evidence of obsolescence or significant adverse changes in the technological, market, economic or legal environment of the market in which the Group operates, or the asset is dedicated. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent, if any, of the impairment loss. Likewise, the determination of the assets' recoverable amounts involves the use of estimates by the management that can have a material impact on the respective values and ultimately the amount of any impairment. In addition, annual impairment tests are performed for goodwill and intangible assets with indefinite useful lives.

*Goodwill*

The goodwill impairment test requires the Group to exercise judgment and assess whether the carrying value of the CGU to which goodwill has been allocated can be supported by the recoverable amount of such CGU to which goodwill has been allocated.

The recoverable amount of a CGU is determined based on a value in use calculation which involves the use of estimates. The main assumptions used in the value in use calculation include the discount rate, terminal growth rate and expected future cash flow projections for a period of up to five years from financial budgets approved by the management. Cash flow projections beyond the planning period are extrapolated using terminal growth rates. Cash flow projections take into account past experience and represent management's best estimates. These assumptions can be subject to significant adjustments from such factors as user trend, spending on marketing, IT spending of corporations, and competition from competitors. The key assumptions used to determine the recoverable amounts of the different CGU to which goodwill has been allocated are disclosed and further explained in Note 11 Impairment.

- Financial assets measured at amortized cost and fair value through other comprehensive income

The Group assesses the expected credit losses associated with its assets carried at amortized cost and FVOCI. The impairment methodology depends on whether there has been a significant increase in credit risk in the individual financial asset or the asset group including the financial asset. If there has been a significant increase in credit risk, the Group measures the loss allowance for the individual financial asset or group of financial assets at an amount equal to the lifetime expected credit losses considering all reasonable and supportable information including that which is forward looking. If there has been no significant increase in credit risk, the Group measures the loss allowance for the financial asset or group of financial assets at an amount equal to the 12-month expected credit losses.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**4. Significant Accounting Judgments, Estimates and Assumptions (continued)**

(a) Impairment (continued)

- Financial assets measured at amortized cost and fair value through other comprehensive income (continued)

For trade receivables, the Group measures the loss allowance at an amount equal to lifetime expected credit losses from initial recognition, hence applies the simplified approach in accordance to IFRS 9.

(b) Recoverability of deferred tax assets

Regarding temporary differences, which are differences between carrying value of an asset or liability in the Consolidated Statements of Financial Position and its tax base, the Group recognizes deferred tax assets and deferred tax liabilities. The deferred tax assets and deferred tax liabilities are calculated using the tax rates based on tax laws that have been enacted or substantively enacted by the end of the reporting period and the tax rates that are expected to apply to the period when the deferred tax asset is realized or the deferred tax liability is settled. Deferred tax assets are recognized for all deductible temporary differences, unused tax losses carryforward and unused tax credits carryforward to the extent that it is probable that taxable income will be available. The estimation of future taxable income is calculated based on financial budgets approved by management of the Group, and it is based on management's subjective judgments and assumptions. The Group considers these estimates to be significant because any adjustments in the assumed conditions and amendments of tax laws in the future may significantly affect the amounts of deferred tax assets and deferred tax liabilities.

(c) Methods of determining fair value for financial instruments measured at fair value

Financial assets and financial liabilities held by the Group are measured at the following fair values:

- quoted prices in active markets for identical assets or liabilities;
- fair value calculated using observable inputs other than quoted prices for the assets or liabilities, either directly or indirectly; and
- fair value calculated using valuation techniques incorporating unobservable inputs.

In particular, the fair value estimates using valuation techniques that incorporate unobservable inputs are based on the judgment and assumptions of Group management, such as experience assumptions, and the use of specific numerical calculation models, such as discounted cash flow models.

(d) Provisions

The Group recognizes asset retirement obligations related to assets leased under operating leases in the Consolidated Statements of Financial Position. These provisions are recognized based on the best estimates of the costs expected to incur for the restoration of the operating lease properties to the state as specified in the rental agreements upon termination of the operating leases. The estimation takes risks and uncertainty related to the obligations into account as of the fiscal year end date.

The Group records a provision for the licensing expense payable to the third-party platform partners upon redemption of promotional virtual credits for virtual items by end users in the future. For promotional and marketing purposes, virtual credits are given to end users free of charge.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**4. Significant Accounting Judgments, Estimates and Assumptions (continued)**

(e) Defined benefit plans

The cost of the defined benefit plan and the present value of the obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions, including the determination of the discount rate and future salary increases.

The Group determines the discount rate based on market returns of high-quality corporate bonds consistent with currencies and estimated payment terms applicable to the defined benefit obligations as of the reporting date in order to calculate present value of the defined benefit obligations. Estimated future salary increases are based on historical salary increases and expected future inflation rates.

Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Further details about the Group's defined benefit obligations are presented in Note 16 Employment Benefits.

(f) Share-based payments

Share-based payment expenses related to stock options granted to directors and employees are estimated based on the option's fair value determined under the Black-Scholes-Merton ("Black-Scholes") option pricing model. The Black-Scholes model requires various highly judgmental assumptions, including expected volatility, expected life of stock options and fair value of share capital at the time of option grants, which will be discussed further below.

Expected volatility is estimated based on the historical volatility of reference companies which are comparable with the Company and the Group. The expected life of stock options is estimated based on the expectation of future stock price movements and expected exercise patterns of the option holders.

(g) Valuation of common shares

Until the Company's initial public offering in July 2016, the Group exercised significant judgment in determining fair value of common shares at the time of option grants. Valuation is based on all relevant facts and circumstances known at the time of valuation, including but not limited to factors such as historical financial results and projections of the Group's future operating and financial performance; market performance of comparable publicly traded companies; overall economic and industry outlook; and third-party valuations of the Group's common shares as of the date of stock option grants.

(h) Revenues

For revenues attributable to the sales of in-game/app virtual items developed by the Group, revenues are recognized over periods over which the benefits are expected to be consumed by end users, taking into consideration historical data on purchase patterns, log-on information, and the removal rates of virtual items.

For revenues attributable to the sales of LINE Stickers, Creator Stickers and emojis, revenues are recognized over the estimated periods over which LINE Stickers, Creator Stickers and emojis are expected to be used by users, taking into consideration historical data on usage and user behavior.

**5. 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

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**5. Segment Information (continued)**

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.
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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.
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(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 annual reporting period ended December 31, 2018, the Group monitors its profit and loss by segment. The profit and loss of each segment for the annual reporting period ended December 31, 2016, 2017 was prepared mainly based on the same method as in fiscal year 2018 where practicable and adjusted accordingly.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

5. Segment Information (continued)

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

For the year ended December 31, 2016

(In millions of yen)

	Reportable segments			Corporate adjustments <sup>(1)</sup>	Consolidated
	Core business	Strategic business	Total		
Revenue from external customers <sup>(2)</sup> . . . . .	130,405	10,299	140,704	—	140,704
Segment profit/(loss) <sup>(3)</sup> . . . . .	29,129	(4,743)	24,386	(4,489)	19,897
Depreciation and amortization expenses . . . . .	4,431	669	5,100	—	5,100

- (1) Corporate adjustments mainly include difference in exchange rate under managerial accounting, other operating income and share-based compensation expenses.
- (2) The segment information for the year ended December 31, 2016 is presented based on IAS 18, while it is presented under IFRS 15 for the year ended December 31, 2018.
- (3) 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, 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

- (1) Corporate adjustments mainly include other operating income and share-based compensation expenses.
- (2) The segment information for the year ended December 31, 2017 is presented based on IAS 18, while it is presented under IFRS 15 for the year ended December 31, 2018.
- (3) 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

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

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**5. Segment Information (continued)**

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

<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 the profit before tax from continuing operations is as follows:

	<i>(In millions of yen)</i>		
	<u>2016</u>	<u>2017</u>	<u>2018</u>
Segment profit . . . . .	19,897	25,078	16,110
Financial income . . . . .	87	257	413
Financial costs . . . . .	(65)	(26)	(519)
Share of loss of associates and joint ventures . . .	(833)	(6,321)	(11,148)
Loss on foreign currency transactions, net . . . . .	(43)	(818)	(902)
Other non-operating income . . . . .	9	1,963	869
Other non-operating expenses . . . . .	<u>(1,062)</u>	<u>(1,988)</u>	<u>(1,469)</u>
Profit before tax from continuing operations . . . .	<u>17,990</u>	<u>18,145</u>	<u>3,354</u>

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, 2016, 2017 and 2018 are as follows. Revenues for the years ended December 31, 2016 and 2017 are presented using IAS 18 as the Group uses the modified retrospective method in the adoption of IFRS 15.



LINE Corporation

Notes to Consolidated Financial Statements (continued)

**5. Segment Information (continued)**

(3) Revenues from Major Services (continued)

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

	<i>(In millions of yen)</i>		
	<u>2016</u>	<u>2017</u>	<u>2018</u>
Core business			
Advertising			
Display advertising <sup>(1)</sup> . . . . .	10,448	26,609	36,221
Account advertising <sup>(2)</sup> . . . . .	33,986	38,929	56,714
Other advertising <sup>(3)</sup> . . . . .	10,186	10,433	15,302
Sub-total . . . . .	<u>54,620</u>	<u>75,971</u>	<u>108,237</u>
Communication, content, and others			
Communication <sup>(4)</sup> . . . . .	29,290	30,225	28,527
Content <sup>(5)</sup> . . . . .	44,784	40,144	38,237
Others . . . . .	1,711	2,816	3,397
Subtotal . . . . .	<u>75,785</u>	<u>73,185</u>	<u>70,161</u>
Core business total . . . . .	<u>130,405</u>	<u>149,156</u>	<u>178,398</u>
Strategic business			
Friends <sup>(6)</sup> . . . . .	9,383	12,299	19,579
Others <sup>(7)</sup> . . . . .	916	5,692	9,205
Strategic business total . . . . .	<u>10,299</u>	<u>17,991</u>	<u>28,784</u>
Total . . . . .	<u>140,704</u>	<u>167,147</u>	<u>207,182</u>

- (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.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**5. Segment Information (continued)**

(4) Geographic Information

**Revenues from external customers**

Revenues from external customers classified by country or region were based on the locations of customers. Revenues attributable to communication and content have been classified based on the geographical location of the end users. Revenues attributable to advertising have been classified based on the geographical locations where the services were provided.

	<i>(In millions of yen)</i>		
	<u>2016</u>	<u>2017</u>	<u>2018</u>
Japan (country of domicile) . . . . .	100,939	121,283	148,260
Taiwan . . . . .	15,614	16,630	18,593
Others . . . . .	<u>24,151</u>	<u>29,234</u>	<u>40,329</u>
<b>Total</b> . . . . .	<u>140,704</u>	<u>167,147</u>	<u>207,182</u>

**Non-current operating assets**

Non-current operating assets mainly consist of property and equipment and intangible assets.

	<i>(In millions of yen)</i>	
	<u>December 31, 2017</u>	<u>December 31, 2018</u>
Japan (country of domicile) . . . . .	23,089	34,502
Korea . . . . .	10,605	5,310
Others . . . . .	<u>5,676</u>	<u>7,946</u>
<b>Total</b> . . . . .	<u>39,370</u>	<u>47,758</u>

(5) Major Customers

No single customer accounted for 10 percent or more of the Group's total revenues for the years ended December 31, 2016, 2017 and 2018.

**6. Cash and Cash Equivalents**

The breakdown of cash and cash equivalents as of December 31, 2017 and 2018 is as follows:

	<i>(In millions of yen)</i>	
	<u>December 31, 2017</u>	<u>December 31, 2018</u>
Cash on hand . . . . .	13	13
Demand deposits . . . . .	<u>123,593</u>	<u>256,965</u>
<b>Total cash and cash equivalents</b> . . . . .	<u>123,606</u>	<u>256,978</u>

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**7. Trade and Other Receivables**

Trade and other receivables as of December 31, 2017 and 2018 are as follows:

*(In millions of yen)*

	<u>December 31, 2017</u>	<u>December 31, 2018</u>
Trade and other receivables, current .....	43,375	38,097
Allowance for doubtful account/Loss allowance, current .....	(483)	(453)
Trade receivables, non-current <sup>(1)</sup> .....	14	14
Allowance for doubtful account/Loss allowance, non-current .....	(14)	(14)
Total trade and other receivables .....	<u>42,892</u>	<u>37,644</u>

<sup>(1)</sup> The non-current trade receivables as of December 31, 2017 were tested for impairment on an individual basis as of the reporting dates based on how long such trade receivables were past due. As a result, allowance for doubtful account for the receivables were recorded.

For movement in the loss allowance for trade and other receivables, refer to Note 25 Financial Risk Management.

**8. Inventories**

Inventories as of December 31, 2017 and 2018 are as follows:

*(In millions of yen)*

	<u>December 31, 2017</u>	<u>December 31, 2018</u>
Goods .....	3,455	4,887
Total Inventories .....	<u>3,455</u>	<u>4,887</u>

Cost of goods recognized from continuing operations for the years ended December 31, 2016, 2017 and 2018, were 3,333 million yen, 4,436 million yen and 7,346 million yen, respectively. Inventory valuation losses recognized from continuing operations for the years ended December 31, 2016, 2017 and 2018, were 186 million yen, 510 million yen and 276 million yen, respectively.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**9. Property and Equipment**

(1) Changes in property and equipment for the year ended December 31, 2017 are as follows:

*(In millions of yen)*

	<u>Furniture and fixtures</u>	<u>Equipment</u>	<u>Construction- in-progress</u>	<u>Others</u>	<u>Total</u>
<b>Acquisition cost</b>					
Balance at January 1, 2017 .....	3,817	15,529	184	755	20,285
Acquisitions .....	4,156	7,038	42	361	11,597
Disposals .....	(1,305)	(911)	—	(174)	(2,390)
Acquisition through business combinations .....	12	184	—	297	493
Exchange differences .....	1	152	—	43	196
Other .....	(180)	204	(184)	61	(99)
Balance at December 31, 2017 .....	<u>6,501</u>	<u>22,196</u>	<u>42</u>	<u>1,343</u>	<u>30,082</u>
<b>Accumulated depreciation and impairment</b>					
Balance at January 1, 2017 .....	2,082	8,955	—	219	11,256
Disposals .....	(1,291)	(810)	—	(3)	(2,104)
Depreciation .....	1,146	4,111	—	266	5,523
Acquisition through business combinations .....	4	125	—	171	300
Exchange differences .....	1	53	—	15	69
Other .....	(63)	(32)	—	8	(87)
Balance at December 31, 2017 .....	<u>1,879</u>	<u>12,402</u>	<u>—</u>	<u>676</u>	<u>14,957</u>
<b>Carrying amounts</b>					
Balance at January 1, 2017 .....	<u>1,735</u>	<u>6,574</u>	<u>184</u>	<u>536</u>	<u>9,029</u>
Balance at December 31, 2017 .....	<u>4,622</u>	<u>9,794</u>	<u>42</u>	<u>667</u>	<u>15,125</u>

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**9. Property and Equipment (continued)**

(2) Changes in property and equipment for the year ended December 31, 2018 are as follows:

*(In millions of yen)*

	<u>Furniture and fixtures</u>	<u>Equipment</u>	<u>Construction- in-progress</u>	<u>Others</u>	<u>Total</u>
<b>Acquisition cost</b>					
Balance at January 1, 2018 .....	6,501	22,196	42	1,343	30,082
Acquisitions .....	1,105	16,095	970	635	18,805
Disposals .....	(8)	(2,134)	—	(24)	(2,166)
Acquisition through business combinations .....	—	18	—	14	32
Loss of control of subsidiaries .....	—	(141)	—	(412)	(553)
Exchange differences .....	(1)	(187)	(7)	(55)	(250)
Other .....	(27)	16	(42)	(41)	(94)
Balance at December 31, 2018 .....	<u>7,570</u>	<u>35,863</u>	<u>963</u>	<u>1,460</u>	<u>45,856</u>
<b>Accumulated depreciation and impairment</b>					
Balance at January 1, 2018 .....	1,879	12,402	—	676	14,957
Disposals .....	(1)	(1,751)	—	(16)	(1,768)
Depreciation .....	1,352	6,745	—	321	8,418
Acquisition through business combinations .....	—	11	—	1	12
Loss of control of subsidiaries .....	—	(73)	—	(289)	(362)
Exchange differences .....	(1)	(78)	—	(27)	(106)
Other .....	(1)	(111)	—	91	(21)
Balance at December 31, 2018 .....	<u>3,228</u>	<u>17,145</u>	<u>—</u>	<u>757</u>	<u>21,130</u>
<b>Carrying amounts</b>					
Balance at January 1, 2018 .....	<u>4,622</u>	<u>9,794</u>	<u>42</u>	<u>667</u>	<u>15,125</u>
Balance at December 31, 2018 .....	<u>4,342</u>	<u>18,718</u>	<u>963</u>	<u>703</u>	<u>24,726</u>

(3) Contractual commitments for the acquisition of property and equipment:

*(In millions of yen)*

<u>December 31, 2017</u>	<u>December 31, 2018</u>
527	1,820

The carrying amounts of property and equipment held under finance leases contracts were nil as of December 31, 2017 and 2018. Additions during the year were nil in 2017 and 2018 of property and equipment under finance leases and installment payment contracts.

Construction-in-progress as of December 31, 2017 was mainly related to capital expenditures for the molds to be used for mass production for Gatebox Inc.'s products. Construction-in-progress as of December 31, 2018 was mainly related to capital expenditures for purchasing equipment related to the QR code to be used for enhancing the LINE Pay service.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**10. Goodwill and Other Intangible Assets**

(1) Changes in goodwill and other intangible assets for the year ended December 31, 2017 are as follows:

(In millions of yen)

<b>Item</b>	<b>Goodwill</b>	<b>Software<sup>(1)</sup></b>	<b>Music rights</b>	<b>Customer relationships</b>	<b>Game publishing rights</b>	<b>Others<sup>(2)</sup></b>	<b>Total</b>
<b>Acquisition cost</b>							
Balance at January 1, 2017 . . . . .	5,592	1,487	433	487	—	2,009	10,008
Acquisitions . . . . .	—	247	—	—	—	2,243	2,490
Acquisition through business combinations <sup>(3)</sup> . . . . .	13,114	588	—	249	1,640	2,290	17,881
Disposals or sales . . . . .	—	(57)	—	—	—	(1,191)	(1,248)
Exchange differences . . . . .	387	84	27	5	109	83	695
Other . . . . .	—	1	—	—	—	11	12
Balance at December 31, 2017 . . .	<u>19,093</u>	<u>2,350</u>	<u>460</u>	<u>741</u>	<u>1,749</u>	<u>5,445</u>	<u>29,838</u>
<b>Accumulated amortization and impairment</b>							
Balance at January 1, 2017 . . . . .	2,192	1,129	433	212	—	791	4,757
Disposals or sales . . . . .	—	(35)	—	—	—	(242)	(277)
Amortization . . . . .	—	210	—	108	270	1,039	1,627
Impairment . . . . .	—	—	—	—	—	214	214
Exchange differences . . . . .	134	67	27	5	14	26	273
Other . . . . .	—	(9)	—	—	—	0	(9)
Balance at December 31, 2017 . . .	<u>2,326</u>	<u>1,362</u>	<u>460</u>	<u>325</u>	<u>284</u>	<u>1,828</u>	<u>6,585</u>
<b>Carrying amounts</b>							
Balance at January 1, 2017 . . . . .	<u>3,400</u>	<u>358</u>	<u>—</u>	<u>275</u>	<u>—</u>	<u>1,218</u>	<u>5,251</u>
Balance at December 31, 2017 . . .	<u>16,767</u>	<u>988</u>	<u>—</u>	<u>416</u>	<u>1,465</u>	<u>3,617</u>	<u>23,253</u>

(1) Software was mainly comprised of externally acquired software. The remaining useful life of software as of December 31, 2017 was three years.

(2) Others mainly was mainly comprised of 1,114 million yen for acquisition of licenses for LINE TV, 651 million yen for acquisition of domain name, and 437 million yen for acquisition of Gatebox Inc.'s trademark and patented technology. The carrying amounts as of December 31, 2017 of these intangible assets were 329 million yen, 646 million yen and 375 million yen, respectively.

(3) The balances were related to the Group's acquisitions of NextFloor Corporation. and its subsidiary as well as FIVE Inc. Refer to Note 29 Business Combinations for further details.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**10. Goodwill and Other Intangible Assets (continued)**

(2) Changes in goodwill and other intangible assets for the year ended December 31, 2018 are as follows:

(In millions of yen)

Item	Goodwill	Software <sup>(4)</sup>	Music rights	Customer relationships	Game publishing rights	Others <sup>(5)</sup>	Total
<b>Acquisition cost</b>							
Balance at January 1, 2018 . . . . .	19,093	2,350	460	741	1,749	5,445	29,838
Acquisitions . . . . .	—	225	—	—	—	2,998	3,223
Acquisition through business combinations . . . . .	1,224	—	—	—	—	—	1,224
Loss of control of subsidiaries <sup>(6)</sup> . . . . .	(560)	(191)	—	—	(1,790)	(436)	(2,977)
Disposals or sales . . . . .	—	(8)	—	—	—	—	(8)
Exchange differences . . . . .	(464)	(61)	(35)	(18)	41	(169)	(706)
Other . . . . .	(45)	—	—	—	—	(146)	(191)
Balance at December 31, 2018 . . .	<u>19,248</u>	<u>2,315</u>	<u>425</u>	<u>723</u>	<u>—</u>	<u>7,692</u>	<u>30,403</u>
<b>Accumulated amortization and impairment</b>							
Balance at January 1, 2018 . . . . .	2,326	1,362	460	325	284	1,828	6,585
Loss of control of subsidiaries <sup>(6)</sup> . . . . .	—	(50)	—	—	(912)	(124)	(1,086)
Disposals or sales . . . . .	—	(6)	—	—	—	—	(6)
Amortization . . . . .	—	262	—	168	636	1,650	2,716
Impairment . . . . .	—	52	—	—	—	160	212
Exchange differences . . . . .	(173)	(39)	(35)	(8)	(8)	(34)	(297)
Other . . . . .	—	—	—	—	—	(114)	(114)
Balance at December 31, 2018 . . .	<u>2,153</u>	<u>1,581</u>	<u>425</u>	<u>485</u>	<u>—</u>	<u>3,366</u>	<u>8,010</u>
<b>Carrying amounts</b>							
Balance at January 1, 2018 . . . . .	<u>16,767</u>	<u>988</u>	<u>—</u>	<u>416</u>	<u>1,465</u>	<u>3,617</u>	<u>23,253</u>
Balance at December 31, 2018 . . .	<u>17,095</u>	<u>734</u>	<u>—</u>	<u>238</u>	<u>—</u>	<u>4,326</u>	<u>22,393</u>

(4) Software was mainly comprised of externally acquired software. The remaining useful life of software as of December 31, 2018 was three years.

(5) Others mainly consist of 1,471 million yen for acquisition of licenses for LINE TV, 651 million yen for acquisition of domain name, and 437 million yen for Gatebox Inc.'s acquisition of trademark and patented technology. The carrying amounts as of December 31, 2018 of these intangible assets were 1,064 million yen, 587 million yen and 306 million yen, respectively.

(6) The balances were mainly comprised with the changes in the Group's ownership ratio of LINE Games Corporation (renamed from NextFloor Corporation) resulting in the investment to be accounted for as an associate under the equity method rather than as a consolidated subsidiary. Refer to Note 30 Principal Subsidiaries for further details.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**10. Goodwill and Other Intangible Assets (continued)**

The Group has been conducting research and development such as Fintech and AI. The research and development expenditure for the years ended December 31, 2016, 2017 and 2018 are 8,584 million yen, 10,357 million yen and 19,096 million yen, respectively.

- (3) Contractual commitments for the acquisition of intangible assets:

	<i>(In millions of yen)</i>	
	<u>December 31, 2017</u>	<u>December 31, 2018</u>
	215	—

**11. Impairment**

- (1) Impairment of Goodwill

The annual impairment testing for goodwill was performed on October 1 for the years ended December 31, 2016, 2017 and 2018. For the purpose of the impairment test, goodwill has been allocated to one CGU for the years ended December 31, 2016 and 2017. For the year ended December 31, 2016 and 2017, the Group's CGU was the Group's operating segment as well as the reporting segment. Since the Group changed its operating segment from one segment to two segments in 2018, Core business and Strategic business, as noted in Note 5 *Segment Information*, in 2018, the Group allocated goodwill to five CGUs and tested goodwill for impairment for the year ended December 31, 2018. The Group's Core business and Strategic business are the Group's operating segments as well as the reporting segments.

The carrying amount of goodwill allocated to each of the CGUs for impairment testing is as follows:

	<i>(In millions of yen)</i>	
<u>CGU</u>	<u>For the year ended December 31, 2016</u>	<u>For the year ended December 31, 2017</u>
LINE business and portal .....	<u>3,400</u>	<u>16,767</u>
Total .....	<u>3,400</u>	<u>16,767</u>

	<i>(In millions of yen)</i>
<u>CGU</u>	<u>For the year ended December 31, 2018</u>
Core business	
Core business .....	14,838
Strategic business	
Friends business .....	740
Fintech business .....	1,075
E-commerce business .....	307
AI business .....	<u>135</u>
Total .....	<u>17,095</u>

The recoverable amounts of the CGUs have been determined based on a value in use calculation using cash flow projections for a period of up to five years from financial budgets approved by the Group's management. Cash flow projections take into account past experience and represent management's best estimates. The main assumptions used in the value in use calculation include the discount rate, terminal



LINE Corporation

Notes to Consolidated Financial Statements (continued)

**11. Impairment (continued)**

(1) Impairment of Goodwill (continued)

growth rate and expected future cash flows. These assumptions can be subject to significant adjustments due to factors such as marketing budgets, IT spending of corporations, and competition from competitors. Cash flows beyond the planning periods were extrapolated using terminal growth rates.

To estimate the discount rate that reflects the time value of money and the risks specific to the CGUs, the Group has assumed a risk-free rate equal to one-month average market yields on 10-year Japanese government bonds at the date of performing the annual impairment test. The Group also incorporated risk premiums, such as a size premium and market risk premium, in the discount rate. The terminal growth rates are based on the long-term average inflation rates of the Group's main countries of operation, including Japan, Taiwan and Thailand, which takes into consideration external macroeconomic sources of data.

(a) CGU

The significant assumptions used in the value in use calculations are as follows:

CGU	2016		2017		2018	
	Pre-tax discount rate	Terminal growth rate	Pre-tax discount rate	Terminal growth rate	Pre-tax discount rate	Terminal growth rate
LINE business and portal CGU . . .	11.7%	1.1%	10.3%	1.6%	—	—
Core business						
Core business . . . . .	—	—	—	—	11.6%	1.3%
Strategic business						
Friends business . . . . .	—	—	—	—	11.2%	2.3%
Fintech business . . . . .	—	—	—	—	11.8%	1.6%
E-commerce business . . . . .	—	—	—	—	11.0%	1.7%
AI business . . . . .	—	—	—	—	11.5%	1.7%

No significant impairment losses were recognized for goodwill for the year ended December 31, 2016, 2017 and 2018, as a result of the annual impairment testing.

(2) Sensitivity to Changes in Assumptions

In the opinion of the Group's management, the recoverable amount considerably exceeded the carrying amount of the CGUs, and the outcomes of the impairment test are not sensitive to reasonably likely changes in any of the assumptions underlying the cash flow projections used for the impairment test or the discount rates in the periods presented for the CGUs.

(3) Impairment of property and equipment and intangible assets with definite useful lives

For the years ended December 31, 2016, no impairment loss was recognized for intangible assets with definite useful lives. For the year ended December 31, 2017, in connection with Kiwiple and LINE Games Global Gateway L.P., impairments of intangible assets with definite useful life in the amounts of 134 million yen and 80 million yen, respectively were recognized. For the year ended December 31, 2018, in the Core business and Strategic business, impairments of intangible assets with defined useful life in the amount of 60 million yen and 152 million yen, respectively were recognized. No impairment loss was recognized for property and equipment for the years ended December 31, 2016, 2017 and 2018.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**12. Provisions**

Changes in provisions for the years ended December 31, 2017 and 2018 are as follows:

(In millions of yen)

	<b>Restoration obligations for operating lease properties</b>	<b>Promotional virtual credits reserve</b>	<b>Other</b>	<b>Total</b>
Balance at January 1, 2017	1,234	509	341	2,084
Arising during the year	1,708	2,945	337	4,990
Utilized	(25)	(2,686)	(211)	(2,922)
Reversal	(16)	(162)	(55)	(233)
Unwinding of discount and changes in the discount rate	0	—	—	0
Increase due to business combinations	85	—	2	87
Exchange differences	44	1	0	45
Other	0	—	—	0
Balance at December 31, 2017	<u>3,030</u>	<u>607</u>	<u>414</u>	<u>4,051</u>
Arising during the year	517	4,188	95	4,800
Utilized	(82)	(2,700)	(414)	(3,196)
Reversal	(3)	(17)	(29)	(49)
Unwinding of discount and changes in the discount rate	0	—	—	0
Increase due to business combinations	10	—	—	10
Decrease due to loss of control of subsidiaries	(149)	—	—	(149)
Exchange differences	(37)	(2)	0	(39)
Other	17	459	(14)	462
Balance at December 31, 2018	<u><u>3,303</u></u>	<u><u>2,535</u></u>	<u><u>52</u></u>	<u><u>5,890</u></u>

**Restoration obligation for operating lease properties**

The Group records provisions for restoration obligations related to its operating lease properties as the Group is required to restore these properties upon termination of the operating leases to the state specified in the rental agreements.

**Promotional virtual credits reserve**

For promotional and marketing purposes, LINE Points and virtual credits are given to end users free of charge. The Group records a provision for the licensing expense payable to the third-party platform partners upon redemption of free promotional virtual credits for virtual items by end users in the future. The reversal is mainly related to the expiration of certain LINE Points and virtual credits that were given to end users free of charge.

**Other**

Other mainly consisted of a provision for the losses expected to be incurred in relation to the outsourcing contracts for “Clova” and the rental agreement as a result of the foreclosure of LINE FRIENDS STORE.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**13. Income Taxes**

(1) Current and deferred taxes related to each component of other comprehensive income for the years ended December 31, 2016, 2017 and 2018 are as follows:

*(In millions of yen)*

	2016			2017			2018		
	Pretax	Tax	Post tax	Pretax	Tax	Post tax	Pretax	Tax	Post tax
Remeasurement of defined benefit plans . . . .	674	(209)	465	2,093	(488)	1,605	(169)	(29)	(198)
Foreign currency translation adjustments . . . .	(299)	(199)	(498)	3,751	(146)	3,605	(4,047)	372	(3,675)
Reclassification adjustments for foreign currency translation adjustments	50	—	50	(13)	—	(13)	(345)	—	(345)
Proportionate share of other comprehensive income of associates . . . . .	3	(0)	3	106	(14)	92	(27)	(4)	(31)
Reclassification adjustments for net changes in proportionate share of other comprehensive income of associates . . . . .	—	—	—	—	—	—	(12)	—	(12)
Net changes in fair value of equity instruments at FVOCI . . . . .	—	—	—	—	—	—	(2,681)	735	(1,946)
Net changes in fair value of debt instruments at FVOCI . . . . .	—	—	—	—	—	—	88	(28)	60
Reclassification adjustments for net changes in fair value of debt instruments at FVOCI . . . . .	—	—	—	—	—	—	10	—	10
Net change in fair value of available-for-sale financial assets . . . . .	(2,019)	546	(1,473)	(3,339)	836	(2,503)	—	—	—
Reclassification adjustments for net change in fair value of available-for-sale financial assets . . . . .	293	(92)	201	1,090	(343)	747	—	—	—
Total . . . . .	<u>(1,298)</u>	<u>46</u>	<u>(1,252)</u>	<u>3,688</u>	<u>(155)</u>	<u>3,533</u>	<u>(7,183)</u>	<u>1,046</u>	<u>(6,137)</u>

Current and deferred taxes related to items directly charged or credited to equity are as follows:

*(In millions of yen)*

	2017	2018
Current tax:		
Share issuance costs related to exercise of stock options . . . . .	(9)	(3)
Share issuance costs related to Employee Stock Ownership Plan . . . . .	(5)	(5)
Deferred tax:		
Share issuance costs related to exercise of stock options . . . . .	(20)	(20)
Issuance of convertible bonds . . . . .	—	1,917
Total tax directly (credited)/charged to equity . . . . .	<u>(34)</u>	<u>1,889</u>

LINE Corporation

Notes to Consolidated Financial Statements (continued)

13. Income Taxes (continued)

(2) Deferred Tax Assets and Deferred Tax Liabilities

The movements in deferred tax assets and deferred tax liabilities for the years ended December 31, 2017 and 2018 are as follows:

(In millions of yen)

	Beginning balance as of January 1, 2017	Amounts recorded under profit or loss	Amounts recognized under other comprehensive income	Other <sup>(1)</sup>	Ending balance as of December 31, 2017
Deferred tax assets:					
Tax losses . . . . .	910	(712)	—	61	259
Depreciation . . . . .	1,769	601	—	(110)	2,260
Advances received . . . . .	3,299	549	—	—	3,848
Deferred revenue . . . . .	2,731	(263)	—	3	2,471
Restoration obligations for operating lease properties . . . . .	57	159	—	(1)	215
Accrued bonuses . . . . .	750	121	—	(117)	754
Allowance for doubtful accounts . . . . .	580	(209)	—	6	377
Other accrued expenses . . . . .	685	(82)	—	134	737
Accrued enterprise taxes . . . . .	466	(223)	—	(2)	241
Available-for-sale financial assets . . . . .	644	(116)	27	(68)	487
Share-based compensation . . . . .	1,097	77	—	(5)	1,169
Post-employment benefits . . . . .	1,285	361	(488)	26	1,184
Tax effect on investments in subsidiaries and associates . . . . .	4,122	(1,881)	(160)	24	2,105
Other . . . . .	949	74	—	(3)	1,020
<b>Total</b> . . . . .	<u>19,344</u>	<u>(1,544)</u>	<u>(621)</u>	<u>(52)</u>	<u>17,127</u>
Deferred tax liabilities:					
Available-for-sale financial assets . . . . .	(1,627)	266	466	(132)	(1,027)
Prepaid expenses . . . . .	(345)	(11)	—	—	(356)
Intangible assets . . . . .	(103)	125	—	(846)	(824)
Other . . . . .	(44)	65	—	(22)	(1)
<b>Total</b> . . . . .	<u>(2,119)</u>	<u>445</u>	<u>466</u>	<u>(1,000)</u>	<u>(2,208)</u>

<sup>(1)</sup> Movements in others are attributable mainly to the acquisition of NextFloor Corporation.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

13. Income Taxes (continued)

(2) Deferred Tax Assets and Deferred Tax Liabilities (continued)

(In millions of yen)

	Beginning balance as of January 1, 2018	Adjustment on adoption of new accounting standards <sup>(1)</sup>	Beginning balance as of January 1, 2018 (adjusted)	Amounts recorded under profit or loss	Amounts recognized under other comprehensive income	Other <sup>(2)</sup>	Ending balance as of December 31, 2018
Deferred tax assets:							
Tax losses	259	—	259	172	—	(94)	337
Depreciation	2,260	—	2,260	1,991	—	20	4,271
Advances received	3,848	(423)	3,425	55	—	—	3,480
Deferred revenue	2,471	783	3,254	(117)	—	(2)	3,135
Restoration obligations for operating lease properties	215	—	215	151	—	(2)	364
Accrued bonuses	754	—	754	58	—	—	812
Allowance for doubtful accounts	377	—	377	33	—	(6)	404
Other accrued expenses	737	—	737	659	—	(13)	1,383
Accrued enterprise taxes	241	—	241	56	—	(1)	296
Available-for-sale financial assets	487	(487)	—	—	—	—	—
Financial assets at fair value through profit or loss	—	196	196	233	—	(6)	423
Financial assets at FVOCI	—	(541)	(541)	—	1,358	(2)	815
Share-based compensation	1,169	—	1,169	119	—	(1)	1,287
Post-employment benefits	1,184	—	1,184	222	(32)	(14)	1,360
Tax effect on investments in subsidiaries and associates	2,105	—	2,105	120	194	32	2,451
Other	1,020	267	1,287	597	—	(16)	1,868
<b>Total</b>	<u>17,127</u>	<u>(205)</u>	<u>16,922</u>	<u>4,349</u>	<u>1,520</u>	<u>(105)</u>	<u>22,686</u>
Deferred tax liabilities:							
Available-for-sale financial assets	(1,027)	1,027	—	—	—	—	—
Financial assets at fair value through profit or loss	—	(207)	(207)	(137)	—	1	(343)
Financial assets at FVOCI	—	15	15	—	1	(45)	(29)
Tax effect on investments in subsidiaries and associates	—	—	—	(2,796)	146	(1)	(2,651)
Convertible bonds	—	—	—	52	—	(1,918)	(1,866)
Prepaid expenses	(356)	(140)	(496)	(247)	—	(5)	(748)
Intangible assets	(824)	—	(824)	432	24	8	(360)
Other	(1)	—	(1)	(58)	(1)	(25)	(85)
<b>Total</b>	<u>(2,208)</u>	<u>695</u>	<u>(1,513)</u>	<u>(2,754)</u>	<u>170</u>	<u>(1,985)</u>	<u>(6,082)</u>

(1) Refer to Note 3 Significant Accounting Policies for more details.

(2) Movements in others are mainly attributable to the issuance of convertible bonds with stock acquisition rights and changes in exchange rate for foreign currencies.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**13. Income Taxes (continued)**

(2) Deferred Tax Assets and Deferred Tax Liabilities (continued)

The deferred tax assets and liabilities reconcile to the amounts presented in the Consolidated Statements of Financial Position as follows:

	<i>(In millions of yen)</i>	
	<b>December 31, 2017</b>	<b>December 31, 2018</b>
<b>Total deferred tax assets</b> .....	17,127	22,686
Adjustment to offset deferred tax assets and liabilities . . . .	<u>(635)</u>	<u>(5,579)</u>
<b>Net deferred tax assets</b> .....	<u>16,492</u>	<u>17,107</u>

	<i>(In millions of yen)</i>	
	<b>December 31, 2017</b>	<b>December 31, 2018</b>
<b>Total deferred tax liabilities</b> .....	(2,208)	(6,082)
Adjustment to offset deferred tax assets and liabilities . . . .	<u>635</u>	<u>5,579</u>
<b>Net deferred tax liabilities</b> .....	<u>(1,573)</u>	<u>(503)</u>

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

Below is a breakdown of the deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax assets were recognized:

	<i>(In millions of yen)</i>	
	<b>December 31, 2017</b>	<b>December 31, 2018</b>
Deductible temporary differences .....	35,997	40,242
Unused tax losses .....	32,985	57,990
Unused tax credits .....	<u>157</u>	<u>48</u>
<b>Total</b> .....	<u>69,139</u>	<u>98,280</u>

Below is a breakdown of the unused tax losses by expiry date for which no deferred tax assets were recognized:

	<i>(In millions of yen)</i>	
	<b>December 31, 2017</b>	<b>December 31, 2018</b>
Less than one year .....	792	1,112
Between one year and five years .....	1,741	3,725
Five years and more .....	12,965	34,812
No expiration date .....	<u>17,487</u>	<u>18,341</u>
<b>Total</b> .....	<u>32,985</u>	<u>57,990</u>

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**13. Income Taxes (continued)**

(2) Deferred Tax Assets and Deferred Tax Liabilities (continued)

Below is a breakdown of unused tax credits by expiry date for which no deferred tax assets were recognized:

	<i>(In millions of yen)</i>	
	<u>December 31, 2017</u>	<u>December 31, 2018</u>
Less than one year .....	36	48
Between one year and five years .....	121	—
Five years and more .....	—	—
No expiration date .....	—	—
Total .....	<u>157</u>	<u>48</u>

As of December 31, 2017 and 2018, the total amounts of taxable temporary differences relating to investments in subsidiaries and joint ventures for which deferred tax liabilities are not recognized were 8,472 million yen and 24,066 million yen, respectively.

(3) The components of income tax expenses for the years ended December 31, 2016, 2017 and 2018 are as follows:

	<i>(In millions of yen)</i>		
	<u>2016</u>	<u>2017</u>	<u>2018</u>
Current income tax:			
Current income tax expenses <sup>(1)</sup> .....	(10,162)	(8,818)	(11,291)
Deferred tax:			
Changes related to origination and reversal of temporary differences <sup>(2)</sup> .....	1,949	(1,107)	1,775
Changes in the tax rate <sup>(3)</sup> .....	<u>(691)</u>	<u>3</u>	<u>(6)</u>
Income tax expenses .....	<u>(8,904)</u>	<u>(9,922)</u>	<u>(9,522)</u>

<sup>(1)</sup> Current income tax expenses include previously unrecognized tax benefits from tax loss carryforwards and deductible temporary differences. These benefits were 489 million yen, 105 million yen and 55 million yen for the years ended December 31, 2016, 2017 and 2018, respectively. In addition, current income tax expenses for the year ended December 31, 2018 include additional taxes charged of 2,215 million yen claimed to the Group's Korean subsidiary.

<sup>(2)</sup> These balances represent the deferred tax benefit or expense from the increase and decrease of temporary differences, the reversal of previously written-down deferred tax assets and write-downs of deferred tax assets. The Group had deferred tax benefits of 541 million yen, 105 million yen and 68 million yen for the years ended December 31, 2016, 2017 and 2018, respectively, due to the reversal of previously written-down deferred tax assets. The reason for having negative amount of deferred tax for the year ended December 31, 2017 is mainly because of the recognition of deferred tax liabilities due to the transfer of camera application business.

<sup>(3)</sup> Amendments to the Japanese tax regulations were enacted into law on March 31, 2014, March 31, 2015 and March 29, 2016. As a result of these amendments, the statutory income tax rate has been approximately 33.5% effective from the year ended December 31, 2016 and it has been reduced to approximately 31.7% effective from the year ending December 31, 2017, 2018 and 31.5% effective

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**13. Income Taxes (continued)**

(3) The components of income tax expenses for the years ended December 31, 2016, 2017 and 2018 are as follows (continued):

from the year ending December 31, 2019. The Group measured deferred tax assets and deferred tax liabilities at the tax rates that are expected to apply to the period when the assets are realized or the liabilities are settled.

(4) The income tax expenses calculated by applying the statutory tax rates to the Group's profit or loss before tax differ from the actual tax expenses in the Consolidated Statements of Profit or Loss for the years ended December 31, 2016, 2017 and 2018 for the following reasons:

	<i>(In millions of yen)</i>		
	<u>2016</u>	<u>2017</u>	<u>2018</u>
Profit before tax from continuing operations .....	17,990	18,145	3,354
(Loss)/Profit before tax from discontinued operations .....	<u>(2,726)</u>	<u>(19)</u>	<u>550</u>
Accounting profit before tax .....	<u>15,264</u>	<u>18,126</u>	<u>3,904</u>
Income tax expenses at a statutory rate of 31.7% (2016: 33.5% and 2017: 31.7%) .....	(5,119)	(5,744)	(1,237)
Permanent non-deductible items <sup>(1)</sup> .....	(2,703)	(353)	(260)
Assessment of the recoverability of deferred tax assets <sup>(2)</sup> .....	(752)	(2,932)	(6,202)
Effects of changes in tax rate .....	(691)	3	(6)
Differences in applicable tax rate of subsidiaries <sup>(3)</sup> .....	(81)	776	(1,194)
Tax effect on investment in subsidiaries and associates <sup>(4)</sup> .....	591	377	(174)
Gain on fair value measurement relating to the deconsolidation <sup>(5)</sup> .....	581	—	4,123
Share of loss of associates and joint ventures <sup>(6)</sup> .....	(279)	(1,836)	(1,741)
Corporate taxes in prior years <sup>(7)</sup> .....	(3)	(182)	(2,754)
Others .....	<u>296</u>	<u>(25)</u>	<u>(251)</u>
Income tax expenses at an effective tax rate of 248.4 % (2016: 53.5% and 2017: 54.7%) .....	<u>(8,160)</u>	<u>(9,916)</u>	<u>(9,696)</u>
Income tax expenses reported in the statements of profit or loss .....	(8,904)	(9,922)	(9,522)
Income tax benefits/(expenses) attributable to discontinued operations .....	<u>744</u>	<u>6</u>	<u>(174)</u>
	<u>(8,160)</u>	<u>(9,916)</u>	<u>(9,696)</u>

(1) Permanent non-deductible items were mainly related to non-deductible share-based payment expenses, including share-based payment expenses incurred in connection with stock options granted to employees and directors defined as non-resident of Japan.

(2) For the year ended December 31, 2016, the amount was due to unrecognized deferred tax assets of 966 million yen, 361 million yen and 189 million yen in connection with the pre-tax losses recorded by the Group's Japanese subsidiaries, MixRadio Limited and the Group's other subsidiaries, respectively, on a stand-alone basis. Such impact was partially offset by recognizing previously unrecognized deferred tax assets of 222 million yen for tax loss carryforwards and 256 million yen for deductible temporary differences, primarily for the Group's Korean subsidiaries on a stand-alone basis.

For the year ended December 31, 2017, the amount was due to unrecognized deferred tax assets of 2,407 million yen, 4 million yen and 953 million yen in connection with the pre-tax losses recorded by the Group's Japanese subsidiaries, MixRadio Limited and the Group's other subsidiaries, respectively, on a



## LINE Corporation

### Notes to Consolidated Financial Statements (continued)

#### 13. Income Taxes (continued)

- (4) The income tax expenses calculated by applying the statutory tax rates to the Group's profit or loss before tax differ from the actual tax expenses in the Consolidated Statements of Profit or Loss for the years ended December 31, 2016, 2017 and 2018 for the following reasons (continued):

stand-alone basis. Such impact was partially offset by recognizing previously unrecognized deferred tax assets of 107 million yen for tax loss carryforward and 0 million yen for deductible temporary differences, primarily for the Group's Taiwan subsidiaries on a stand-alone basis.

For the year ended December 31, 2018, the amount was due to unrecognized deferred tax assets of 4,134 million yen and 1,789 million yen in connection with the pre-tax losses recorded by the Group's subsidiaries in Japan and other countries, respectively on the stand-alone basis. Such impact was partially offset by recognizing previously unrecognized deferred tax assets of 40 million yen for tax loss carryforwards and 14 million yen for deductible temporary differences, primarily for the Group's Korean subsidiaries on a stand-alone basis.

- (3) For the year ended December 31, 2016, the amount mainly due to pre-tax profits recorded by the Group's Korean subsidiaries, which was partially offset by the pre-tax loss recorded by MixRadio Limited. For the year ended December 31, 2017, the amount mainly due to pre-tax profits recorded by the Group's Korean subsidiaries. For the year ended December 2018, the amount mainly due to pre-tax loss recorded by the Group's Korean subsidiaries.
- (4) This tax effect is mainly due to the deductible temporary difference arising from the investment in MixRadio Limited, which incurred losses during the year. This tax effect offsets MixRadio Limited's stand-alone tax impacts described in (2) and (3) above.
- (5) For the year ended December 31, 2016, the amount was related to the re-measurement to fair value of the investment in LINE BIZ Plus Ltd at the date the Group lost the control over the subsidiary. For the year ended December 31, 2018, the amount was related to the re-measurement of the investment in LINE Mobile Corporation and LINE Games Corporation, based on the fair value as of the day when the Group lost the control over its subsidiary.
- (6) The amount was mainly related to pre-tax losses recorded by the Group's associates on a stand-alone basis for which no deferred tax assets were recognized as the related tax benefits could not be recognized.
- (7) This amount for the year ended December 31, 2018 was mainly related to the additional taxes charged of 2,215 million yen claimed to the Group's Korean subsidiary and this subsidiary is currently in the process of appealing the results of the tax audit.

#### 14. Other Current Liabilities

Other current liabilities as of December 31, 2017 and 2018 mainly consist of consumption tax payables.

#### 15. Financial Assets and Financial Liabilities

The carrying amounts and fair value of financial instruments, except for cash and cash equivalents, by line item in the Consolidated Statements of Financial Position and by category as defined in IAS39 *Financial Instruments: Recognition and Measurement* and IFRS 9 *Financial Instruments*, as of December 31, 2017 and 2018 respectively are as follows: The Group's trade receivables do not contain significant financing component.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**15. Financial Assets and Financial Liabilities (continued)**

The fair value is not disclosed for those financial instruments whose fair value approximates their carrying amount due to their short-term and/or variable-interest bearing nature among those not measured at fair value in the Consolidated Statements of Financial Position. Refer to Note 26 Fair Value Measurements for more details on the fair value information of the financial instruments whose fair value is disclosed in this footnote.

(In millions of yen)

Items	December 31, 2017		December 31, 2018	
	Book value	Fair value	Book value	Fair value
<b>Financial assets</b>				
<b>Trade and other receivables</b>				
Financial assets at amortized cost	—		37,644	
Loans and receivables	42,892		—	
Total	42,892		37,644	
<b>Other financial assets, current</b>				
Financial assets at amortized cost				
Time deposits	—		11,507	
Short-term loans	—		593	
Guarantee deposits	—		853	
Office security deposits	—		—	
Other	—		4	
Financial assets at FVOCI <sup>(1)</sup>	—		2,958	2,958
Loans and receivables				
Time deposits	12,002		—	
Short-term loans	206		—	
Corporate bonds and other debt instruments	849		—	
Office security deposits	195		—	
Available-for-sale financial assets	6	6	—	—
Total	13,258		15,915	
<b>Other financial assets, non-current</b>				
Financial assets at amortized cost				
Corporate bonds and other debt instruments	—	—	280	288
Guarantee deposits	—	—	123	123
Office security deposits	—	—	9,162	9,050
Other	—	—	118	118
Financial assets at FVOCI <sup>(1)</sup>	—	—	22,343	22,343
Financial assets at fair value through profit or loss <sup>(3)</sup>	—	—	10,261	10,261
Held-to-maturity investments <sup>(2)</sup>	280	291	—	—
Loans and receivables				
Corporate bonds and other debt instruments	7,986	8,036	—	—
Guarantee deposits <sup>(2)</sup>	726	726	—	—
Office security deposits	5,709	5,546	—	—
Financial assets at fair value through profit or loss <sup>(3)</sup>				
Conversion right and redemption right of preferred stock	1,862	1,862	—	—
Available-for-sale financial assets <sup>(4)</sup>	15,388	15,388	—	—
Other	133	133	—	—
Total	32,084		42,287	

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**15. Financial Assets and Financial Liabilities (continued)**

(In millions of yen)

<u>Items</u>	<u>December 31, 2017</u>		<u>December 31, 2018</u>	
	<u>Book value</u>	<u>Fair value</u>	<u>Book value</u>	<u>Fair value</u>
<b>Financial liabilities</b>				
<b>Trade and other payables</b>				
Financial liabilities at amortized cost .....	28,810		34,985	
<b>Other financial liabilities, current</b>				
Financial liabilities at amortized cost				
Deposits received <sup>(5)</sup> .....	5,730		13,653	
Short-term borrowings <sup>(6)</sup> .....	22,224		23,000	
Others .....	46		57	
Financial liabilities at fair value through profit or loss				
Put option liabilities .....	3	3	16	16
Total .....	28,003		36,726	
<b>Corporate bonds<sup>(7)</sup> .....</b>	<b>—</b>		<b>142,132</b>	<b>143,743</b>
<b>Other financial liabilities non-current</b>				
Financial liabilities at amortized cost				
Office security deposits received under sublease agreement .....	23	23	16	16
Others .....	93		231	
Financial liabilities at fair value through profit or loss				
Put option liabilities .....	486	486	280	280
Total .....	602		527	

- (1) Impairment losses of 10 million yen were recognized for debt instruments at FVOCI for the year ended December 31, 2018.
- (2) The Group is in the compliance with requirements of the Japanese Payment Services Act, where a certain amount of money defined in the act has to be secured, either by depositing or entrusting a cash reserve or government bonds with the Legal Affairs Bureau, or by concluding a guarantee contract with a financial institution. If deposits are made, they are recorded as guarantee deposits. If guarantee contracts are entered into, guarantee fees equal to the contractual amount times a guarantee fee rate is incurred. In accordance with the Japanese Payment Services Act, the Group had deposited cash of 635 million yen as of December 31, 2017. The Group also had deposited investments in Japanese government bonds of 280 million yen as of December 31, 2017 and 2018, which the Group intends to hold until maturity for this purpose. In addition, the Group had credit guarantee contracts with banks for 12,500 million yen with a guarantee fee rate of 0.1% and for 18,500 million yen with a weighted average guarantee fee rate of 0.1% as of December 31, 2017 and 2018, respectively, to comply with the Japanese Payment Services Act.
- (3) A valuation loss of 676 million yen was recognized for financial assets at fair value through profit or loss for the year ended December 31, 2018.
- (4) Impairment losses of 1,761 million yen and gain on sale of 751million yen were recognized for available-for-sale financial assets for the year ended December 31, 2017.
- (5) The amounts were calculated based on IAS 18 and IFRS 15 for the years ended December 31, 2017 and 2018, respectively. (Refer to Note 3 Significant Accounting Policies).
- (6) The weighted average interest rate of the remaining outstanding short-term borrowings as of December 31, 2017 and 2018 was 0.1% and 0.1%, respectively.
- (7) During the year ended December 31, 2018, I. Euro-yen convertible bonds with stock acquisition rights due to overseas public offering of 37,494.5 million yen (Zero coupon convertible bonds due 2023) and II.

## LINE Corporation

### Notes to Consolidated Financial Statements (continued)

#### 15. Financial Assets and Financial Liabilities (continued)

37,494.5 million yen (Zero coupon convertible bonds due 2025) were issued. The Group also issued Euro-yen convertible bonds with stock acquisition rights through two of the separate third-party allotments to NAVER Corporation, amounted to III. 37,494.5 million yen (Zero coupon convertible bonds due 2023) and IV. 37,494.5 million yen (Zero coupon convertible bonds due 2025). At initial recognition, the book value of the liability component of the convertible bonds with stock acquisition rights is the fair value of discounted future cash flows of the bonds at a rate of similar debt instruments taking into account the Company's credit risk excluding the transaction costs from issuing the bonds. The difference between the fair value of the entire convertible bonds with stock acquisition rights and the fair value of the liability component is allocated to the conversion option as the equity component at the amount excluding the transaction costs as well as income taxes. The Group recognized a liability of 141,932 million yen and an equity component of 4,175 million yen at the initial recognition. After the initial recognition, the liability component is measured at amortized cost using the effective interest method, whilst the equity component is not remeasured subsequently. The book value of the liability of the convertible bonds with stock acquisition rights as of December 31, 2018 amounted to 142,132 million yen, which was the summation of the book value of the liability as at the initial recognition and the interest expense of 200 million yen. The Group may redeem all, but not some only, of the outstanding bonds at 100% of the principal amount provided, however, that no such redemption may be made unless the closing price of the share for each of the 20 consecutive trading days is at least 130 percent of the conversion price for the relevant series of bonds in effect on or after September 21, 2021 for the Euro-yen convertible bonds with stock acquisition rights I. and III., and after September 20, 2023 for II. and IV. There is no financial covenants on the corporate bonds that cause a material disadvantage.

#### 16. Employment Benefits

The Group offers its employees in Korea, Taiwan and Thailand defined benefit plans (unfunded and funded) and defined contribution plans. The specific features of these plans vary depending on the applicable laws and regulations in each country where the employees work. The majority of the Group's defined benefit obligations represents the defined benefit plans for employees of LINE Plus Corporation, LINE PLAY Corporation, LINE Biz Plus Corporation, LINE Friends Corporation, LINE STUDIO Corporation, LINE UP Corporation, NemusTech Co.,Ltd., Unblock Corporation and Markt Co., Ltd and LINE Financial Plus Corporation (collectively, the "subsidiaries with defined benefit plans") which are located in Korea, while LINE GAMES Corporation, NextFloor Corporation., Next Floor Basement Lab Corporation InnoAG. Inc. and Oozoo Inc. offer their employees defined contribution plans. The expenses recognized in the Consolidated Statements of Profit or Loss in relation to the defined contribution plans amounted to nil for the year ended December 31, 2016, and 47 million yen and 97 million yen for the years ended December 31, 2017 and 2018 respectively. The feature of the defined benefit plans in Korea is described below.

The legal and regulatory framework for the plans is based on the applicable Korean Employee Retirement Benefit Security Act ("ERBSA"). Post-employment defined benefit plan provides lump sum payments to the eligible employees. Directors and current employees of the subsidiaries offer defined benefit plans with a service period of over one year are eligible for such post-employment defined benefits, which are calculated based on a final average pay formula.

Furthermore, the plans expose the Group to actuarial risks, such as interest rate risk, salary increase risk, and longevity risk. Interest rate risk refers to the risk of fluctuation of bond yields. A decrease in the bond yields will increase the defined benefit obligations liability. The salary increase risk refers to the risk that an increase in future salary will increase the defined benefit obligations liability. Longevity risk refers to the risk that an increase in life expectancy of the plan participants will increase the defined benefit obligations liability. The plan

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**16. Employment Benefits (continued)**

assets of the defined benefit plans expose the Group to the risk of underperformance in comparison with the Group's expectation.

(1) Liabilities for defined benefit obligations as of December 31, 2017 and 2018 are as follows:

*(In millions of yen)*

	December 31, 2017			December 31, 2018		
	Unfunded	Funded	Total	Unfunded	Funded	Total
Present value of defined benefit obligations	6,089	100	6,189	6,628	582	7,210
Plan assets <sup>(1)</sup>	—	(27)	(27)	—	(267)	(267)
Liabilities for post-employment benefits	<u>6,089</u>	<u>73</u>	<u>6,162</u>	<u>6,628</u>	<u>315</u>	<u>6,943</u>

<sup>(1)</sup> All of the plan assets are held by NemusTech, Co., Ltd. and Markt Co., Ltd.

(2) Expenses related to defined benefit plans are recognized in the Consolidated Statements of Profit or Loss as operating expenses for the years ended December 31, 2016, 2017 and 2018 are comprised of the following:

*(In millions of yen)*

	2016	2017	2018
Current service costs	1,620	1,933	1,973
Interest costs	127	208	207
Total	<u>1,747</u>	<u>2,141</u>	<u>2,180</u>

(3) Movements in the present value of the defined benefit obligations for the years ended December 31, 2017 and 2018 are as follows:

*(In millions of yen)*

	2017	2018
Defined benefit obligations at the beginning of year	6,204	6,189
Current service costs	1,933	1,973
Interest costs	208	207
Remeasurement (gains)/losses:		
Actuarial losses arising from changes in demographic assumptions	(28)	(33)
Actuarial (gains)/losses arising from changes in financial assumptions <sup>(1)</sup>	(1,513)	166
Experience adjustments <sup>(2)</sup>	(552)	33
Payments from the plan	(453)	(943)
Net transfer <sup>(3)</sup>	(57)	(105)
Increase due to business combinations	261	—
Decrease due to deconsolidation	—	(42)
Exchange differences on translation of foreign operations	186	(235)
Defined benefit obligations at the end of year	<u>6,189</u>	<u>7,210</u>

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**16. Employment Benefits (continued)**

(3) Movements in the present value of the defined benefit obligations for the years ended December 31, 2017 and 2018 are as follows (continued):

- (1) In 2017, actuarial gains arising from changes in financial assumptions resulted mainly from an increase in the discount rate and a decrease in the period end weighted average salary increase rate at year end 2017, as compared to corresponding rates at year end in 2016. The increase in the discount rate primarily related to the fact that the estimated duration, which is used to calculate the retirement benefit obligation, increased due to the decrease in estimated termination rates described above. The decrease in the weighted average salary increase rate is primarily related to the fact that the salary increase rates for the current year and the estimated future inflation rate decreased. In 2018, there are no material changes of the discount rate and weighted average salary increase rate compared with those in 2017.
- (2) Experience adjustments represent the impact from differences between actual experiences during the year compared with the previous actuarial assumptions on defined benefit obligations.
- (3) Net transfer primarily represents the transfer of defined benefit obligations associated with employees of NAVER or other NAVER group companies joining LINE Plus Corporation, LINE PLAY Corporation, LINE Biz Plus Corporation, LINE Friends Corporation and LINE Financial Plus Corporation and vice versa.

(4) Movements in the plan assets for the years ended December 31, 2017 and 2018 are as follows:

	<i>(In millions of yen)</i>	
	<u>2017</u>	<u>2018</u>
Plan assets at the beginning of year . . . . .	—	27
Interest income . . . . .	2	5
Employer contributions . . . . .	31	316
Benefits paid . . . . .	(6)	(72)
Gains due to remeasurement Plan assets revenue (excluding interest income) . . . . .	—	(3)
Exchange differences on translation of foreign operations . . . . .	—	(6)
Plan assets at the end of year . . . . .	<u>27</u>	<u>267</u>

The plan assets contain only cash and cash equivalents. Employer contributions expected to be paid to the plan for the year ending December 31, 2019 are 126 million yen. The amount of employer contributions is determined so that balance of plan assets can be more than 90% of the balance of NemusTech Co., Ltd. and Markt Co., Ltd.'s defined benefit obligations at each year end in the long term.

(5) Significant judgment is required when selecting key assumptions for measuring defined benefit expenses for a period and the defined benefit obligations at the period end for each defined benefit plan. The principal actuarial assumptions used include discount rates and salary increase rates.

The Group determined the discount rate based on market returns of high-quality corporate bonds consistent with the currencies and estimated payment terms corresponding to the defined benefit obligations as of the reporting date in order to calculate the present value of the defined benefit obligations.

	<u>December 31, 2016</u>	<u>December 31, 2017</u>	<u>December 31, 2018</u>
Discount rate . . . . .	3.4%	3.2%-3.7%	2.5%-3.5%
Weighted average of salary increase . . . . .	8.6%-11.3%	4.5%-7.7%	5.3%-7.1%

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**16. Employment Benefits (continued)**

- (6) Economic factors and conditions often affect multiple assumptions simultaneously; as such, the effects of changes in key assumptions are not necessarily linear. The following sensitivity analysis illustrates the impact of changes in certain significant actuarial assumptions, leaving all other assumptions constant, as of December 31, 2017 and 2018:

*(In millions of yen)*

<u>Assumptions and sensitivity level</u>	<u>Impact on the defined benefit obligations</u>	
	<u>December 31, 2017</u>	<u>December 31, 2018</u>
Discount rate		
100 basis point increase . . . . .	(5,019)	(833)
100 basis point decrease . . . . .	6,561	1,020
Salary increase rate		
100 basis point increase . . . . .	7,057	970
100 basis point decrease . . . . .	(5,620)	(812)

- (7) The average duration of the defined benefit plan obligations as of December 31, 2017 and 2018 were 13.3 and 12.9 years, respectively.

The following table shows estimated future benefit payments within ten years from December 31, 2018. Actual payments may differ from those shown because of uncertain future events.

*(In millions of yen)*

<u>Years</u>	<u>Estimated future benefit payments</u>
2019 . . . . .	276
2020 . . . . .	359
2021 . . . . .	436
2022 . . . . .	516
2023 . . . . .	599
2024–2028 . . . . .	4,548

**17. Leases—Group as Lessee**

**Operating lease commitments—Group as lessee**

The Group has entered into commercial lease agreements for certain office space and stores. The significant leases have a lease term of five years without renewal option included in the contracts. There are no restrictions placed upon the Group by entering into these leases.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**17. Leases—Group as Lessee (continued)**

**Operating lease commitments—Group as lessee (continued)**

Future minimum lease payment under non-cancelable operating leases are as follows:

	<i>(In millions of yen)</i>	
	<b>December 31, 2017</b>	<b>December 31, 2018</b>
Less than one year . . . . .	4,139	9,662
Between one year and five years . . . . .	10,223	26,226
Five years and more . . . . .	—	22,800
	<u><b>14,362</b></u>	<u><b>58,688</b></u>

Of the operating lease expenses of 4,580 million yen for the year ended December 31, 2016, 3,309 million yen was attributable to minimum lease payment expenses, and the remaining 1,271 million yen was related to the variable lease payment expenses.

Of the operating lease expenses of 5,468 million yen for the year ended December 31, 2017, 3,759 million yen was attributable to minimum lease payment expenses, and the remaining 1,709 million yen was related to the variable lease payment expenses.

Of the operating lease expenses of 10,252 million yen for the year ended December 31, 2018, 6,960 million yen was attributable to minimum lease payment expenses, and the remaining 3,292 million yen was related to the variable lease payment expenses.

**18. Leases—Group as Lessor**

**Operating leases—Group as lessor**

In 2016, 2017 and 2018, the Group subleased a part of its head office to a third party. Sublease income on sublease arrangement was based on the actual square footage occupied by the third party.

Future minimum rentals receivable under non-cancelable operating leases are as follows:

	<i>(In millions of yen)</i>	
	<b>December 31, 2017</b>	<b>December 31, 2018</b>
Within one year . . . . .	23	48
After one year but not more than five years . . . . .	25	8
	<u><b>48</b></u>	<u><b>56</b></u>

The Group recognized sublease income of 54 million yen, 49 million yen and 67 million yen for the years ended December 31, 2016, 2017 and 2018, respectively.



LINE Corporation

Notes to Consolidated Financial Statements (continued)

**19. Issued Capital and Reserves**

The movements in issued capital and reserves for the years ended December 31, 2016, 2017 and 2018 are as follows:

(1) Authorized shares and shares issued

The movements of authorized shares and shares issued for the years ended December 31, 2016, 2017 and 2018 are as follows:

	Number of authorized shares (Share capital with no-par value)	Number of shares issued (Share capital with no-par value)		Share capital (In millions of yen)
		Common shares	Class A shares	
January 1, 2016	690,000,000	—	174,992,000	12,596
Conversion of class A shares to common shares <sup>(1)</sup>	—	174,992,000	(174,992,000)	—
Initial public offering <sup>(2)</sup>	—	40,250,000	—	63,424
Exercise of stock options <sup>(3)</sup>	—	2,533,500	—	1,836
December 31, 2016	690,000,000	217,775,500	—	77,856
Exercise of stock options <sup>(3)</sup>	—	19,713,500	—	12,513
Issuance of common shares <sup>(4)</sup>	—	1,007,810	—	2,000
December 31, 2017	690,000,000	238,496,810	—	92,369
Exercise of stock options <sup>(3)</sup>	—	855,500	—	1,195
Issuance of common shares <sup>(5)</sup>	—	1,172,332	—	2,500
December 31, 2018	690,000,000	240,524,642	—	96,064

<sup>(1)</sup> Through an amendment of its article of incorporation effective as of March 31, 2016, the Company terminated its dual class structure of shares and converted all outstanding class A shares to common shares.

<sup>(2)</sup> The Company issued 35,000,000 shares of common shares through the initial public offering of new shares on July 14, 2016. Additionally, on August 16, 2016, Nomura Securities Co., Ltd. and Morgan Stanley & Co. LLC. exercised their options to purchase 5,250,000 additional common shares in an allotment of new shares. As of December 31, 2016, there were no outstanding over-allotment options granted to underwriters.

<sup>(3)</sup> Refer to Note 27 Share-Based Payments for further details.

<sup>(4)</sup> In conjunction with the introduction of the Employee Stock Ownership Plans Trust (J-ESOP) on July 18, 2017, the Company issued 1,007,810 common shares to Trust & Custody Services Bank, Ltd. (Trust E account). The total amount of issued shares was 4,000 million yen, which increased share capital by 2,000 million yen.

<sup>(5)</sup> The Group implements the Employee Stock Ownership Plans Trust ((J-ESOP) and issued 1,172,332 common shares to Trust & Custody Services Bank, Ltd. (Trust E account) on April 25, 2018. The total amount of issued shares was 5,000 million yen, which increased share capital by 2,500 million yen.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**19. Issued Capital and Reserves (continued)**

(2) Share premium and retained earnings

*Share premium*

The movements in share premium for the years ended December 31, 2016, 2017 and 2018 are as follows:

(In millions of yen)

	<u>Stock option</u>	<u>Common control business combinations</u>	<u>Others<sup>(1)</sup></u>	<u>Share premium total</u>
January 1, 2016 . . . . .	15,023	294	3,666	18,983
Share-based payments <sup>(2)</sup> . . . . .	9,520	—	—	9,520
Exercise of stock options <sup>(2)</sup> . . . . .	(2,548)	—	2,460	(88)
Forfeiture of stock options <sup>(2)</sup> . . . . .	(60)	—	—	(60)
Initial public offering <sup>(3)</sup> . . . . .	—	—	63,424	63,424
Cost related to initial public offering <sup>(4)</sup> . . . . .	—	—	(571)	(571)
December 31, 2016 . . . . .	<u>21,935</u>	<u>294</u>	<u>68,979</u>	<u>91,208</u>
Share-based payments <sup>(2)</sup> . . . . .	1,882	—	—	1,882
Exercise of stock options <sup>(2)</sup> . . . . .	(16,746)	—	15,721	(1,025)
Forfeiture of stock options <sup>(2)</sup> . . . . .	(9)	—	—	(9)
Issuance of common shares <sup>(5)</sup> . . . . .	—	—	2,000	2,000
Cost related to issuance of common shares <sup>(4)</sup> . . . . .	—	—	(73)	(73)
Acquisition of non-controlling interest . . . . .	—	—	(423)	(423)
December 31, 2017 . . . . .	<u>7,062</u>	<u>294</u>	<u>86,204</u>	<u>93,560</u>
Share-based payments <sup>(2)</sup> . . . . .	1,336	—	—	1,336
Exercise of stock options <sup>(2)</sup> . . . . .	(1,652)	—	1,459	(193)
Forfeiture of stock options <sup>(2)</sup> . . . . .	(37)	—	—	(37)
Issuance of common shares <sup>(6)</sup> . . . . .	—	—	2,500	2,500
Issuance of convertible bonds with stock acquisition rights <sup>(7)</sup> . . . . .	4,175	—	—	4,175
Cost related to issuance of common shares <sup>(4)</sup> . . . . .	—	—	(18)	(18)
Changes in interests in subsidiaries <sup>(8)</sup> . . . . .	—	(488)	17,928	17,440
Disposal of treasury shares . . . . .	(167)	—	30	(137)
December 31, 2018 . . . . .	<u>10,717</u>	<u>(194)</u>	<u>108,103</u>	<u>118,626</u>

(1) Others mainly consists of capital reserve required under the Companies Act of Japan.

(2) Refer to Note 27 Share-Based Payments for further detail.

(3) The Company issued 35,000,000 common shares through the initial public offering of new shares on July 14, 2016. Additionally, on August 16, 2016, Nomura Securities Co., Ltd. and Morgan Stanley & Co. LLC. exercised their options to purchase 5,250,000 additional shares of common stock in an allotment of new shares. As of December 31, 2016, there were no outstanding allotment options granted to underwriters.

(4) Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from equity, net of any tax effects.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**19. Issued Capital and Reserves (continued)**

(2) Share premium and retained earnings (continued)

*Share premium (continued)*

- (5) In conjunction with the introduction of the Employee Stock Ownership Plans Trust (J-ESOP) on July 18, 2017, the Company issued 1,007,810 common shares to Trust & Custody Services Bank, Ltd. (Trust E account). The total amount of issuance price of shares was 4,000 million yen, which increased share premium by 2,000 million yen.
- (6) The Group implements the Employee Stock Ownership Plan ((J-ESOP) and issued 1,172,332 common shares to Trust & Custody Services Bank Ltd. on April 25, 2018. The total amount of issued shares was 5,000 million yen, which increased share premium by 2,500 million yen.
- (7) Refer to Note 15 Financial Assets and Financial Liabilities for further details.
- (8) Changes in interests in subsidiaries include increase in share premium of 17,892 million yen due to the changes in percentage of ownership in connection with third-party allotments by our subsidiaries as well as the decrease in share premium of 488 million yen due to the changes in the percentage of ownership resulting from absorption type mergers within subsidiaries of the Group.

Under the Companies Act of Japan, at least 50% of the proceeds of certain issuances of share capital shall be credited to share capital. The remaining proceeds shall be credited to share premium. The Companies Act permits, upon approval at the general meeting of shareholders, the transfer of amounts from share premium to share capital.

*Retained earnings*

The Companies Act of Japan requires that an amount equal to at least 10% of dividends from surplus, as defined under the Companies Act, shall be appropriated as capital reserve (part of share premium) or appropriated for legal earnings reserve (part of retained earnings) until the aggregate amount of capital reserve and legal earnings reserve is equal to 25% of share capital. The legal earnings reserve may be used to eliminate or reduce a deficit or be transferred to other retained earnings upon approval at the general meeting of shareholders. The Company has not declared or paid cash dividends to date, and therefore no legal earnings reserves have been recorded as of December 31, 2017 and 2018.

(3) Treasury shares

The movements in treasury shares for the year ended December 31, 2017 and 2018 are as follows:

	<u>Number of shares (Common share with no-par value)</u>	<u>Amount (In millions of yen)</u>
January 1, 2017 .....	—	—
Increase during the year <sup>(1)</sup> .....	1,007,810	4,000
Decrease during the year <sup>(2)</sup> .....	<u>(100)</u>	<u>(0)</u>
December 31, 2017 .....	<u>1,007,710</u>	<u>4,000</u>
Increase during the year <sup>(3)</sup> .....	1,173,285	5,004
Decrease during the year <sup>(2)</sup> .....	<u>(201,220)</u>	<u>(799)</u>
December 31, 2018 .....	<u>1,979,775</u>	<u>8,205</u>

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**19. Issued Capital and Reserves (continued)**

(3) Treasury shares (continued)

- (1) In conjunction with the introduction of the Employee Stock Ownership Plan (J-ESOP) on July 18, 2017, the Company issued 1,007,810 common shares to Trust & Custody Services Bank, Ltd. (Trust E account), of which total amount was 4,000 million yen.
- (2) Decrease is due to the sales of shares by Trust & Custody Services Bank, Ltd. (Trust E account).
- (3) The Group implements the Employee Stock Ownership Plan (JESOP) and issued 1,172,332 common shares to Trust & Custody Services Bank, Ltd. (Trust E account) on April 25, 2018. The total amount of issued shares was 5,000 million yen.

**20. Supplemental Cash Flow Information**

**For the year ended December 31, 2016**

*Deconsolidation of LINE BIZ Plus Ltd.*

On April 25, 2016, an issuance of new shares to BSS Holdings group, a provider of smart cards for mass transit systems and offline e-payment at retail stores in Thailand, resulted in a decrease of the Group's ownership of LINE BIZ Plus Ltd. (subsequently renamed to RABBIT LINE PAY COMPANY LIMITED) from 100.0% to 50.0%. LINE BIZ Plus Ltd. was accounted for as a joint venture under the equity method because the Group had joint control of the entity under the shareholders' agreement. The assets, liabilities and other items of LINE BIZ Plus Ltd. transferred in connection with the deconsolidation are as follows:

	<i>(In millions of yen)</i>
Cash and cash equivalents <sup>(1)</sup> . . . . .	482
Other current assets . . . . .	19
Non-current assets . . . . .	28
Current liabilities . . . . .	(71)
Non-current liabilities . . . . .	(4)
Goodwill . . . . .	150
Non-controlling interests . . . . .	0
Exchange differences on translation of foreign operations . . . . .	49
Total . . . . .	<u>653</u>

(1) This amount is included in "Cash disposed on loss of control of subsidiary and business transfer" in the Group's Consolidated Statements of Cash Flows.

As of the transaction date, the re-measurement to fair value of the investment retained by the Group in LINE BIZ Plus Ltd. amounted to 2,384 million yen and was based on the issuance of new shares for 750 million Baht. As a result, the Group recognized a gain of 1,731 million yen, which was recognized in the Consolidated Statements of Profit or Loss as "Other operating income".

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**20. Supplemental Cash Flow Information (continued)**

**For the year ended December 31, 2016 (continued)**

*Divestiture of Bonsai Garage Corporation*

On February 29, 2016, the Company sold all of its shares of Bonsai Garage Corporation to a third party. The assets and liabilities of the Bonsai Garage Corporation, gain on divestiture of the subsidiary, and cash consideration received in connection with such sales are presented below:

	<i>(In millions of yen)</i>
Cash and cash equivalents . . . . .	3
Other current assets . . . . .	10
Current liabilities . . . . .	(34)
Gain on divestiture of business and subsidiary . . . . .	<u>21</u>
Total consideration received in cash . . . . .	<u>0</u>
Net decrease in cash and cash equivalents due to the divestiture of Bonsai Garage Corporation <sup>(1)</sup> . . . . .	<u>(3)</u>

<sup>(1)</sup> This amount is included in “Cash disposed on loss of control of subsidiary and business transfer” in the Group’s Consolidated Statements of Cash Flows.

*Repayments of short-term borrowings*

“Repayments of short-term borrowings, net” in the Group’s Consolidated Statements of Cash Flows consists of 22,080 million yen of proceeds and 42,833 million yen of repayments for the year ended December 31, 2016.

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

*Transfer of Camera Application Business to Snow Corporation*

On May 1, 2017, the Group transferred the camera application business, which was operated by LINE Plus Corporation, to Snow Corporation, an associate of the Group and a subsidiary of NAVER. The camera application business includes services such as B612, LINE Camera, Foodie and Looks.

The Group acquired 208,455 newly issued common shares of Snow Corporation in exchange for the camera application business. The number of common shares newly issued by Snow Corporation was determined based on the ratio of the fair value of the camera application business transferred as well as the cash and cash equivalent comparing to the enterprise value of Snow Corporation. As a result of this transaction, the Group’s ownership in Snow Corporation increased from 25.0% to 48.6%, followed by an additional capital injection to Snow Corporation by the Company and NAVER in August 2017, resulting in a decrease of the Group’s ownership from 48.6% to 45.0%. The Group continues to account for its ownership in Snow Corporation using the equity method. Also, the ownership of NAVER in Snow Corporation decreased from 75.0% to 55.0% as a result of this transaction. Refer to Note 31 Investments in Associates and Joint Ventures for further details.

The common shares of Snow Corporation received in exchange for the camera application business are measured and recorded at fair value as of the transaction date. The fair value of the common shares was measured based on the fair value of the camera application business which was estimated using the discounted cash flow method. All

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**20. Supplemental Cash Flow Information (continued)**

**For the year ended December 31, 2017 (continued)**

*Transfer of Camera Application Business to Snow Corporation (continued)*

the variances between the assets and liabilities of the camera application business transferred to Snow Corporation and the consideration of transfer were recognized as gain on transfer as presented below.

	<i>(In millions of yen)</i>
Current assets . . . . .	603
Cash and cash equivalents . . . . .	581
Other current assets . . . . .	22
Non-current assets . . . . .	71
Current liabilities . . . . .	(133)
Non-current liabilities . . . . .	(334)
Total . . . . .	<u>207</u>
Consideration received in exchange for the transfer of camera application business <sup>(1)</sup> . . . . .	<u>10,651</u>
Gain on transfer <sup>(2)</sup> . . . . .	<u><u>10,444</u></u>

- (1) This amount is solely for the newly issued common shares of Snow Corporation. This transaction is considered as a non-cash transaction.
- (2) This amount is included in “Other operating income” in the Group’s Consolidated Statements of Profit or Loss.

*Material non-cash transactions*

(1) Acquisition of treasury shares by issuance of common shares

In conjunction with the introduction of the Employee Stock Ownership Plan (J-ESOP), which has been resolved at board of director’s meeting held at June 26, 2017, the Company has issued 1,007,810 of common shares to Trust & Custody Services Bank, Ltd. (Trust E), and payment process has completed on July 18, 2017. The Company’s share held by the trust is included in “treasury shares” in the Group’s Consolidated Statement of Financial Position.

As a result, the amounts of share capital, share premium, and treasury shares in the year ended December 31, 2017 were increased by 2,000 million yen, 2,000 million yen and 4,000 million yen, respectively.

(2) Acquisition of interest in subsidiaries by debt equity swap

On June 19, 2017, the Group provided loan to NextFloor Corporation. (“NextFloor”) for the amount of 1,976 million yen. Subsequently, on July 24, 2017, the all of the loan was converted into common share of NextFloor through the process of acquiring 51.0% interests of NextFloor. Refer to Note 29. Business Combinations for further details.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**20. Supplemental Cash Flow Information (continued)**

**For the year ended December 31, 2017 (continued)**

*Movements on liabilities from financing activities*

(In millions of yen)

	<b>Borrowings which are due less than one year</b>	<b>Borrowings which are due after one year</b>	<b>Total</b>
Net liabilities as of January 1, 2017 .....	21,925	—	21,925
Cash flows .....	(107)	(1)	(108)
Increase due to business combinations .....	405	91	496
Items such as foreign currency translation adjustments .....	<u>1</u>	<u>3</u>	<u>4</u>
Net liabilities as of December 31, 2017 .....	<u>22,224</u>	<u>93</u>	<u>22,317</u>

**For the ended December 31, 2018**

*Loss of control of LINE Mobile Corporation*

In April 2018, LINE Mobile Corporation issued its new shares to SoftBank Corporation through a third-party allotment. As a result, the Group's ownership of LINE Mobile Corporation has decreased from 100.0% to 49.0%, resulting LINE Mobile Corporation to be accounted for as an associate under the equity method rather than as a consolidated subsidiary.

The assets, liabilities and gain on loss of control of LINE Mobile Corporation after deconsolidation are presented below;

(In millions of yen)

Current assets .....	2,646
Cash and cash equivalents <sup>(1)</sup> .....	1,113
Trade and other receivables .....	1,277
Inventories .....	48
Other non-current assets .....	208
Non-current assets .....	270
Current liabilities .....	(4,083)
Non-current liabilities .....	<u>(1)</u>
Total .....	<u>(1,168)</u>
Fair value of investment owned by the Group ..	<u>8,326</u>
Gain on loss of control of subsidiaries <sup>(2)</sup> .....	<u>9,494</u>

(1) This amount is included in "Cash disposed on loss of control of subsidiary and business transfer" in the Group's Consolidated Statements of Cash Flows.

(2) This amount is included in "Other operating income" in the Group's Consolidated Statements of Profit or Loss for the year ended December 31, 2018.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**20. Supplemental Cash Flow Information (continued)**

**For the ended December 31, 2018 (continued)**

*Loss of control of LINE Games Corporation and its subsidiaries*

In November 2018, LINE Games Corporation issued its new shares to Lungo Entertainment Ltd. through the third-party allotment. As a result, the Group's ownership of LINE Games Corporation has decreased from 100.0% to 49.5%, resulting LINE Games Corporation to be accounted for as an associate under the equity method rather than as a consolidated subsidiary.

The assets, liabilities and gain on loss of control of LINE Games Corporation after deconsolidation are presented as below;

	<i>(In millions of yen)</i>
Current assets . . . . .	2,969
Cash and cash equivalents <sup>(1)</sup> . . . . .	930
Trade and other receivables . . . . .	758
Other current assets . . . . .	1,281
Non-current assets . . . . .	4,570
Current liabilities . . . . .	(1,276)
Non-current liabilities . . . . .	(265)
Other comprehensive income . . . . .	(180)
Non-controlling interests . . . . .	<u>(1,974)</u>
Total . . . . .	<u>3,844</u>
Fair value of investment owned by the Group . . . . .	<u>19,144</u>
Gain on loss of control of subsidiaries <sup>(2)</sup> . . . . .	<u><u>15,300</u></u>

(1) This amount is included in "Cash disposed on loss of control of subsidiary and business transfer" in the Group's Consolidated Statements of Cash Flows.

(2) This amount is included in "Other operating income" in the Group's Consolidated Statements of Profit or Loss.

*Material non-cash transactions*

(1) Acquisition of treasury shares by issuance of common shares

In conjunction with the introduction of the Employee Stock Ownership Plan (J-ESOP), which has been resolved at board of directors' meeting held at April 9, 2018, the Company has issued 1,172,332 of common shares to Trust & Custody Services Bank, Ltd. (Trust E), and payment process has completed on April 25, 2018. The Company's share held by the trust is included in "treasury shares" in the Group's Consolidated Statement of Financial Position.



LINE Corporation

Notes to Consolidated Financial Statements (continued)

**20. Supplemental Cash Flow Information (continued)**

**For the ended December 31, 2018 (continued)**

As a result, the amounts of share capital, share premium, and treasury shares in the fiscal year 2018 were increased by 2,500 million yen, 2,500 million yen and 5,000 million yen, respectively.

*Movements on liabilities from financing activities*

*(In millions of yen)*

	<u>Borrowings which are due less than one year</u>	<u>Borrowings which are due after one year</u>	<u>Corporate bond which are due after one year</u>	<u>Total</u>
Net liabilities as of January 1, 2018 . . . . .	22,224	93	—	22,317
Cash flows . . . . .	966	—	148,024	148,990
Transfer of liquidity . . . . .	78	(78)	—	—
Increase due to business combinations . . . . .	—	9	—	9
Decrease due to loss of control of subsidiaries . . . . .	(79)	—	—	(79)
Increase due to recognition of interest expense of corporate bond at amortized cost . . . . .	—	—	200	200
Recognition of stock acquisition rights through issuance of corporate bonds and deferred tax liabilities . . . . .	—	—	(6,092)	(6,092)
Foreign currency translation adjustments . . . . .	(189)	(18)	—	(207)
Net liabilities as of December 31, 2018 . . . . .	<u>23,000</u>	<u>6</u>	<u>142,132</u>	<u>165,138</u>

**21. Revenue from Contracts with Customers**

The Group has recognized the following amounts relating to revenue in the Consolidated Statement of Profit or Loss for the year ended December 31, 2018:

*(In millions of yen)*

	<u>2018</u>
Revenue from contracts with customers	
Revenue <sup>(1)</sup> . . . . .	207,182
Other operating income: Virtual credits breakage income . . . . .	387
	<u>207,569</u>
Other revenue from other sources	
Other operating income <sup>(2)</sup> . . . . .	<u>27,712</u>

(1) Refer to Note 5 Segment Information for further details of revenue by segment.

(2) Refer to Note 20 Supplemental Cash Flow Information and Note. 30. Principal Subsidiaries for details of other operating income.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**21. Revenue from Contracts with Customers (continued)**

Trade and other receivables, contract assets and contract liabilities

	<i>(In millions of yen)</i>	
	<u>January 1, 2018</u>	<u>December 31, 2018</u>
Trade and other receivables .....	41,663	37,644
Contract assets <sup>(1)</sup> .....	<u>437</u>	<u>339</u>
Contract liabilities		
Unsatisfied performance obligations <sup>(2)</sup> ...	12,778	12,927
Virtual credits <sup>(3)</sup> .....	<u>11,201</u>	<u>11,710</u>
Total contract liabilities .....	<u>23,979</u>	<u>24,637</u>

- (1) Contract assets mainly consist of transactions related to the advertising contracts in which the revenues from these transactions are recognized over time by measuring the progress towards completion of satisfaction of the performance obligation.
- (2) Unsatisfied performance obligations will be fulfilled mainly within a year. Therefore, the transaction price allocated to unsatisfied contract is not disclosed, based on the practical expedient as permitted under IFRS 15.
- (3) The timing of transfer of goods or services related to virtual credits is determined at the customer's discretion.

Revenue recognized during the year ended December 31, 2018, that was included in the contract liability balance as of January 1, 2018 are as follow:

	<i>(In millions of yen)</i>
	<u>2018</u>
Unsatisfied performance obligations .....	11,182
Virtual credits .....	9,349

The Group recorded 4,367 million yen of contract costs as of December 31, 2018 in the Consolidated Statement of Financial Position and 2,172 million yen of amortization expenses of such assets for the year ended December 31, 2018.

**22. Other Income and Expenses**

- (1) Other operating income for the years ended December 31, 2016, 2017 and 2018 are as follows:

	<i>(In millions of yen)</i>		
	<u>2016</u>	<u>2017</u>	<u>2018</u>
Virtual credits breakage income .....	1,491	815	386
Gain on loss of control of subsidiaries and business transfer <sup>(1)</sup> ....	1,731	10,444	24,794
Dilution gain <sup>(2)</sup> .....	—	434	2,635
Gain on sale of land <sup>(3)</sup> .....	2,461	—	—
Others .....	<u>209</u>	<u>318</u>	<u>284</u>
Total .....	<u>5,892</u>	<u>12,011</u>	<u>28,099</u>

- (1) Refer to Note 20 Supplemental Cash Flow Information for further details.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**22. Other Income and Expenses (continued)**

- (2) Dilution gain included gain of 2,310 million yen for the year ended December 31, 2018 in connection with third-party allotments by Snow Corporation, an associate of the Group.
- (3) On June 29, 2016, the Company sold land in Fukuoka prefecture with a carrying amount of 2,584 million yen to Kyushu Railway Company. The sale price was 5,050 million yen and the Group recognized a gain on the sale of 2,461 million yen.

- (2) Other operating expenses for the years ended December 31, 2016, 2017 and 2018 are as follows:

	<i>(In millions of yen)</i>		
	<u>2016</u>	<u>2017</u>	<u>2018</u>
Rent . . . . .	3,529	6,143	8,440
Travel . . . . .	1,737	2,259	3,348
Supplies . . . . .	1,154	2,378	3,327
Taxes and dues . . . . .	801	1,516	2,347
Professional fees . . . . .	2,030	2,182	3,266
Cost of goods . . . . .	3,519	4,946	7,622
Training . . . . .	1,006	1,344	1,972
LINE points . . . . .	463	1,006	5,533
Others <sup>(1)</sup> . . . . .	<u>4,137</u>	<u>3,629</u>	<u>5,286</u>
Total . . . . .	<u>18,376</u>	<u>25,403</u>	<u>41,141</u>

- (1) The amount consists of office management fees, utilities and other miscellaneous expenses.

- (3) Other non-operating income for the years ended December 31, 2016, 2017 and 2018 are as follows:

	<i>(In millions of yen)</i>		
	<u>2016</u>	<u>2017</u>	<u>2018</u>
Gain on financial assets at fair value through profit or loss <sup>(1)</sup> . . . .	—	1,096	555
Dividend income . . . . .	4	69	50
Gain on sale of financial assets . . . . .	—	751	136
Gain from derivatives . . . . .	—	47	128
Others . . . . .	<u>5</u>	<u>—</u>	<u>—</u>
Total . . . . .	<u>9</u>	<u>1,963</u>	<u>869</u>

- (1) For the years ended December 31, 2016, 2017 and 2018, gains and losses on valuation of financial assets are recognized under IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 9 *Financial Instruments*, respectively.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**22. Other Income and Expenses (continued)**

(4) Other non-operating expenses for the years ended December 31, 2016, 2017 and 2018 are as follows:

	<i>(In millions of yen)</i>		
	<u>2016</u>	<u>2017</u>	<u>2018</u>
Loss on financial assets at fair value through profit or loss <sup>(1)</sup> . . .	656	118	1,231
Loss on impairment of available-for-sale financial assets . . . . .	293	1,761	—
Loss from derivatives . . . . .	60	—	—
Others . . . . .	<u>53</u>	<u>109</u>	<u>238</u>
Total . . . . .	<u>1,062</u>	<u>1,988</u>	<u>1,469</u>

<sup>(1)</sup> For the years ended December 31, 2016, 2017 and 2018, gains and losses on financial assets at fair value through profit or loss are recognized under IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 9 *Financial Instruments*, respectively.

**23. Discontinued Operations**

The Group acquired MixRadio on March 16, 2015. Subsequently, the Group made a strategic decision to focus on its core LINE business and portal segment. On February 12, 2016, the board of directors approved the abandonment of the MixRadio segment. The operation of the MixRadio business was classified as a discontinued operation on March 21, 2016, when the abandonment took effect.

The aggregated results of the discontinued operations for the years ended December 31, 2016, 2017 and 2018 are presented below.

	<i>(In millions of yen)</i>		
	<u>2016</u>	<u>2017</u>	<u>2018</u>
Revenues . . . . .	444	—	—
Other income <sup>(1)</sup> . . . . .	9	—	566
Expenses <sup>(2)</sup> . . . . .	<u>(3,179)</u>	<u>(19)</u>	<u>(16)</u>
(Loss)/profit before tax from discontinued operations . . . . .	(2,726)	(19)	550
Income tax benefits/(expenses) on liquidation <sup>(3)</sup> . . . . .	<u>744</u>	<u>6</u>	<u>(174)</u>
(Loss)/profit for the year from discontinued operations (attributable to the shareholders of the Company) . . . . .	<u>(1,982)</u>	<u>(13)</u>	<u>376</u>

<sup>(1)</sup> For the year ended December 31, 2018, the Group recognized a gain from discharge of debt amounting to 566 million yen in connection with the liquidation of the MixRadio business on March 21, 2016.

<sup>(2)</sup> In connection with the abandonment of the MixRadio business on March 21, 2016, restructuring expenses related to employee termination benefits of 1,165 million yen and office lease termination fees of 126 million yen have been incurred.

<sup>(3)</sup> The income tax benefits/(expenses) for the year ended December 31, 2016, 2017 and 2018 are mainly due to the deductible temporary difference arising from the investment in MixRadio Limited, which incurred loss or profit during the periods.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**23. Discontinued Operations (continued)**

The aggregated cash flow information of the discontinued operations for the years ended December 31, 2016, 2017 and 2018, are presented below.

	<i>(In millions of yen)</i>		
	<u>2016</u>	<u>2017</u>	<u>2018</u>
Operating .....	(4,654)	(136)	18
Investing .....	22	—	—
Financing .....	—	—	(353)
Net cash outflow .....	<u>(4,632)</u>	<u>(136)</u>	<u>(335)</u>

**24. Earnings per Share**

The profit or loss for the year 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>		
	<u>2016</u>	<u>2017</u>	<u>2018</u>
Profit/(loss) for the year attributable to the shareholders of the Company from continuing operations .....	8,745	8,091	(4,094)
(Loss)/profit for the year attributable to the shareholders of the Company from discontinued operations .....	(1,982)	(13)	376
<b>Total profit/(loss) for the year attributable to the shareholders of the Company for basic earnings and diluted earnings per share .....</b>	<u>6,763</u>	<u>8,078</u>	<u>(3,718)</u>
<b>Weighted average number of total common shares and class A shares .....</b>	194,083,995	221,405,391	239,761,603
<b>Weighted average number of total treasury shares .....</b>	—	(459,843)	(1,686,797)
<b>Weighted average number of common and class A shares for basic earnings per share<sup>(1)</sup> .....</b>	<u>194,083,995</u>	<u>220,945,548</u>	<u>238,074,806</u>
Effect of dilution:			
Stock options .....	20,790,013	16,559,789	—
Employee Stock Ownership Plan (J-ESOP) .....	—	47,369	—
Convertible bonds with stock acquisition rights .....	—	—	—
<b>Weighted average number of total common and class A shares adjusted for the effect of dilution .....</b>	<u>214,874,008</u>	<u>237,552,706</u>	<u>238,074,806</u>

<sup>(1)</sup> Through the amendment of its articles of incorporation on June 15, 2015, the Company introduced a dual class structure of common shares and class A shares and converted all outstanding common shares into class A shares; therefore, the weighted average number of shares for the year ended December 31, 2016 includes the average number of common shares and class A shares for the year ended December 31, 2016. Additionally, through an amendment of its article of incorporation effective as of March 31, 2016, the Company terminated its dual class structure of commons shares and class A shares and converted all class A shares into common shares.

## LINE Corporation

### Notes to Consolidated Financial Statements (continued)

#### **24. Earnings per Share (continued)**

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, 2016, included options representing 22,911,500 shares which were outstanding as of December 31, 2016 as they had a dilutive impact.

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 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.

#### **25. Financial Risk Management**

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout the Group's consolidated financial statements.

##### **(1) Risk Management Framework**

The Group limits its fund management to highly liquid and low risk investments, such as time deposits and other debt instruments. The Group raises funds mainly through the issuance of corporate bonds, and borrowings from financial institutions, including banks, with high credit ratings. The Group may enter into foreign exchange forward contracts to hedge foreign exchange risk. The Group does not enter into any financial transactions for speculative purposes.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**25. Financial Risk Management (continued)**

(2) Credit Risk

Credit risk is the risk of financial losses to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investments.

- (a) Maximum amounts of possible financial loss to the Group due to credit risk as of December 31, 2017 and 2018 are as follows:

*(In millions of yen)*

	<b>December 31, 2017</b>	<b>December 31, 2018</b>
	<u>Book value</u>	<u>Book value</u>
Demand deposits <sup>(1)(2)</sup> .....	123,593	256,965
Time deposits <sup>(1)(2)</sup> .....	12,002	11,507
Loan receivables <sup>(2)</sup> .....	206	593
Guarantee deposits <sup>(1)(2)(3)</sup> .....	726	976
Trade and other receivables <sup>(2)(4)</sup> .....	42,892	37,644
Japanese government bonds <sup>(1)(2)(3)</sup> .....	280	280
Corporate bonds and other debt instruments <sup>(1)(2)</sup> .....	8,835	18,005
Office security deposits <sup>(1)(2)(5)</sup> .....	5,904	9,162
<b>Total</b> .....	<u>194,438</u>	<u>335,132</u>

(1) None of these assets were past due or impaired as of December 31, 2017.

(2) For receivables, the Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group regularly performs credit assessments on customers and counterparties considering their financial position and historical data in order to manage the credit risk. The Group established an allowance for impairment that represents its estimate of incurred losses in respect of the financial assets set out in the above table as of December 31, 2017. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical experience for similar assets.

The Group recorded provisions for estimated credit risk in respect of the financial assets set out in the above table as of December 31, 2018. The methodology used for estimating the expected credit loss differs depending on whether there have been significant increase in credit risk since initial recognition per financial assets or per assets group. The Group measures the financial assets measured at amortized cost without any significant increase in credit risk at the amount equal to twelve-month expected credit losses. For the financial assets measured at amortized cost with a significant increase in credit risk, the Group measures at the amount equal to the lifetime expected credit losses considering all reasonable and supportable information, including that which is forward-looking. The Group uses the probability that a default occurs calculated based on the historical default data of the corporate bond ratings in Japan to measure twelve-month expected credit losses and the lifetime expected credit losses.

For the trade receivables, the Group applied the simplified approach permitted by IFRS 9 that estimates the lifetime expected credit losses since the initial recognition. The expected credit risk of trade receivables are measured using the probability that a default occurs calculated based on the Group's historical experiences on cash collection from trade receivables. When there have been significant

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**25. Financial Risk Management (continued)**

(2) Credit Risk (continued)

- (a) Maximum amounts of possible financial loss to the Group due to credit risk as of December 31, 2017 and 2018 are as follows (continued):

increases in credit risk, the Group measures the expected credit risk considering all reasonable and supportable information.

- (3) Refer to Note 15 Financial Assets and Financial Liabilities for details of the financial instruments being deposited under the Japanese Payment Services Act.
- (4) The Group identifies concentrations of credit risk when a limited number of the Group's counterparties that have similar characteristics or business activities, and thus are affected similarly by changes in economic or other conditions, account for a large portion of the entire trade and other receivables. The Group had significant concentrations of credit risk with two payment processing service providers, representing 30.5% and 23.6% of trade and other receivables as of December 31, 2017 and 2018, respectively.
- (5) The amount mainly consists of the office security deposits paid for the Group's office lease agreements.

(b) Trade and other receivables

As of December 31, 2017, in case of impairment of financial assets, the Group did not directly write off such assets by reducing the carrying amount, but instead recorded an allowance for doubtful accounts. However, in the event that there was no realistic prospect of future recovery, financial assets were directly written off.

As of December 31, 2018, the Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially, the following indicators are incorporated:

- external credit rating (as far as available)
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- actual or expected significant changes in the operating results of the customer or the counterparty
- significant increase in credit risk of the customer or the counterparty

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is past due in making a contractual payment. The Group defines a default on a financial asset when the customer or the counterparty fails to make contractual payments within six months from the due date. Financial assets are written off when there is no reasonable expectation of recovery.



LINE Corporation

Notes to Consolidated Financial Statements (continued)

**25. Financial Risk Management (continued)**

(2) Credit Risk (continued)

(b) Trade and other receivables (continued)

Loss allowance for trade and other receivables as of December 31, 2018 are calculated as follows:

*(In millions of yen)*

	December 31, 2018				
	Current	Within six months past due	Over six months past due	Over twelve months past due	Total
Expected credit loss rate <sup>(1)</sup> . . . . .	0.0%	1.7%	30.4%	97.5%	1.2%
Trade and other receivables . . . . .	35,182	2,386	176	367	38,111
Loss allowance . . . . .	16	39	54	358	467

<sup>(1)</sup> The expected credit loss rate is calculated based on the historical loss rate for trade receivables and other receivables of one year.

Below is the movement in the allowance for doubtful accounts and the loss allowance attributable to trade and other receivables. The balances for the trade and other receivables over six months past due are aggregated as the balance of these assets are not significant.

*(In millions of yen)*

	<u>Provisions</u>
Allowance for doubtful accounts balance at January 1, 2017 . . . . .	1,077
Provision for the year . . . . .	83
Reversal . . . . .	(515)
Utilized . . . . .	(204)
Acquisition of subsidiary . . . . .	44
Translation . . . . .	7
Allowance for doubtful accounts balance at December 31, 2017 (IAS 39) . . . . .	<u>492</u>
Loss allowance balance at January 1, 2018 (IFRS 9) <sup>(1)</sup> . . . . .	492
Provision for the year . . . . .	304
Reversal . . . . .	(60)
Utilized . . . . .	(171)
Deconsolidation . . . . .	(102)
Translation . . . . .	4
Loss allowance balance at December 31, 2018 . . . . .	<u><u>467</u></u>

<sup>(1)</sup> Loss allowance and retained earnings as of January 1, 2018 were not affected by adopting IFRS 9.

Refer to Note 7 Trade and Other Receivables for more details on non-current trade and other receivables as of December 31, 2017 and 2018.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**25. Financial Risk Management (continued)**

(2) Credit Risk (continued)

(c) Financial assets measured at amortized cost and debt instruments measured at FVOCI

The loss allowance recognized during the current period is limited to twelve-month expected credit risk as debt instruments that are measured at amortized cost and those that are measured at FVOCI have low credit risk. The management determines whether the debt instruments have low credit risk when at least one major rating organization rates them as “investment grade”. For any other investments, the management deems the investments to have low credit risk if the investments have low risk of default, and the issuers has a strong capacity to meet its contractual cash flow obligations in the near future.

Financial assets measured at amortized cost consist of financial assets with low credit risk such as time deposits and Japanese government bonds. The Group has not recognized the expected loss amount through such financial assets as the expected amount is not significant.

The Group recognized the loss allowance for debt instruments that are measured at FVOCI in the amount of 27 million yen as of December 31, 2018. A disclosure of the movement of loss allowance for debt instruments measured at FVOCI is omitted, as the loss allowance is not significant.

(3) Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group’s approach to managing liquidity is to ensure, as much as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group’s reputation.

The Group monitors its cash flow through long-term and short-term management strategies and ensures it has sufficient cash on hand to meet expected operational expenses.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**25. Financial Risk Management (continued)**

(3) Liquidity Risk (continued)

(a) Financial liabilities

The book values of financial liabilities based on the remaining maturities as of December 31, 2017 and 2018 are as follows. The amounts below include estimated interest from financial liabilities scheduled to be paid.

(In millions of yen)

	December 31, 2017				
	Book value	Contractual cash outflows	Less than one year	One to five years	After five years
Trade and other payables	28,810	28,810	28,810	—	—
Short-term borrowings <sup>(1)</sup>	22,224	22,341	22,341	—	—
Deposits received	5,730	5,730	5,730	—	—
Office security deposits received under sublease agreement	23	23	—	23	—
Put option liabilities	486	486	—	486	—
<b>Total</b>	<u>57,273</u>	<u>57,390</u>	<u>56,881</u>	<u>509</u>	<u>—</u>

(In millions of yen)

	December 31, 2018				
	Book value	Contractual cash outflows	Less than one year	One to five years	After five years
Trade and other payables	35,210	35,210	34,985	225	—
Short-term borrowings <sup>(1)</sup>	23,000	23,019	23,019	—	—
Deposits received	13,653	13,653	13,653	—	—
Corporate bonds	142,132	146,320	—	73,160	73,160
Office security deposits received under sublease agreement	16	16	—	16	—
Put option liabilities	296	296	16	280	—
<b>Total</b>	<u>214,307</u>	<u>218,514</u>	<u>71,673</u>	<u>73,681</u>	<u>73,160</u>

<sup>(1)</sup> The Group had lines of credit with four banks for the years ended December 31, 2017 and 2018. The lines of credit available and the lines of credit used are as follows:

(In millions of yen)

	December 31, 2017	December 31, 2018
Lines of credit available	22,712	23,680
Lines of credit used	22,000	23,000
Remaining lines of credit available	<u>712</u>	<u>680</u>

(b) Financial assets

Private equity investment fund

As a limited partner of the private equity investment funds, the Group may be required at any time to contribute to the partnership its pro rata share of the aggregate amount to be contributed by all limited

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**25. Financial Risk Management (continued)**

partners for such portfolio investment, up to the amount of its unfunded capital commitment (810 million yen, 26 million U.S. dollars, equivalent of 2,942 million yen, and 45 million Taiwan dollars, equivalent of 170 million yen, as of December 31, 2017, and 1,215 million yen, 30 million US dollars, equivalent of 3,349 million yen, as of December 31, 2018) as of the day of the capital contribution call.

(4) Market Risk

Market risk is the risk that changes in market prices which will affect the future cash flow or the value of the Group's holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

(a) Exchange rate risk

The Group has exposure to currency risk on sales and purchase transactions denominated in currencies other than the functional currencies. The main currencies used for transactions of the Group are the Japanese yen ("JPY"), the Korean won ("KRW"), the euro ("EUR"), the U.S. dollar ("USD"), the Thai baht ("THB") and the New Taiwan dollar ("TWD").

The book values of major assets and liabilities denominated in currencies other than the functional currency as of December 31, 2017 and 2018 are as follows:

*(In millions)*

	December 31, 2017			
	Currency	Amount	Exchange rate	Yen equivalent
<b>Assets:</b>				
Cash and cash equivalents .....	KRW	7,312	0.11	770
	USD	101	112.88	11,364
	EUR	2	134.78	213
	JPY	258	1.00	258
Trade receivables .....	USD	12	112.88	1,336
	THB	188	3.45	649
Other receivables .....	USD	5	112.88	611
Time deposits .....	KRW	6,100	0.11	643
	USD	10	112.88	1,131
Office security deposits .....	KRW	5,655	0.11	596
Available-for-sale financial assets .....	USD	35	112.88	3,949

LINE Corporation

Notes to Consolidated Financial Statements (continued)

25. Financial Risk Management (continued)

(4) Market Risk (continued)

(a) Exchange rate risk (continued)

(In millions)

December 31, 2018				
Assets:	Currency	Amount	Exchange rate	Yen equivalent
Cash and cash equivalents . . . . .	KRW	15,539	0.10	1,534
	USD	109	110.36	11,985
	JPY	337	1.00	337
Trade receivables . . . . .	KRW	2,362	0.10	233
	USD	12	110.36	1,378
	THB	72	3.39	245
Financial instruments at amortized cost				
Time deposit . . . . .	KRW	7,100	0.10	701
Short-term loans . . . . .	USD	11	110.36	1,260
Guarantee deposit . . . . .	KRW	8,628	0.10	852
Office security deposits . . . . .	KRW	7,250	0.10	716
Financial assets at fair value through profit or loss . . . .	USD	23	110.36	2,491
	TWD	88	3.61	319

(In millions)

December 31, 2017				
Liabilities:	Currency	Amount	Exchange rate	Yen equivalent
Trade and other payables . . . . .	KRW	(20,456)	0.11	(2,155)
	USD	(10)	112.88	(1,166)
	THB	(97)	3.45	(334)
Put option liabilities . . . . .	KRW	(2,114)	0.11	(223)

(In millions)

December 31, 2018				
Liabilities:	Currency	Amount	Exchange rate	Yen equivalent
Trade and other payables . . . . .	KRW	(44,026)	0.10	(4,345)
	USD	(11)	110.36	(1,229)
	TWD	(125)	3.61	(451)
	JPY	(256)	1.00	(256)
Put option liabilities . . . . .	KRW	(2,296)	0.10	(227)

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**25. Financial Risk Management (continued)**

(4) Market Risk (continued)

(a) Exchange rate risk (continued)

The effects on profit or loss before tax from continuing operations and shareholders' equity as a result of exchange rate fluctuations as of December 31, 2017 and 2018, are as follows:

*(In millions of yen)*

Currency	December 31, 2017			
	Shareholders' equity		Profit or (loss) before tax	
	Appreciation of functional currency by 5%	Depreciation of functional currency by 5%	Appreciation of functional currency by 5%	Depreciation of functional currency by 5%
EUR	11	(10)	8	(8)
KRW	(18)	18	(13)	12
USD	861	(820)	603	(574)
THB	16	(15)	11	(10)
JPY	13	(12)	10	(10)

*(In millions of yen)*

Currency	December 31, 2018			
	Shareholders' equity		Profit or (loss) before tax	
	Appreciation of functional currency by 5%	Depreciation of functional currency by 5%	Appreciation of functional currency by 5%	Depreciation of functional currency by 5%
KRW	(14)	13	(27)	26
USD	584	(556)	794	(756)
THB	8	(8)	12	(12)
TWD	(6)	5	(7)	6
JPY	3	(3)	4	(4)

The tables above demonstrate the sensitivity to a change in EUR, KRW, USD, THB, TWD and JPY assuming all other variables are constant.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

25. Financial Risk Management (continued)

(4) Market Risk (continued)

(b) Interest rate risk

Interest bearing financial assets and liabilities as of December 31, 2017 and 2018 are as follows:

(In millions of yen)

	December 31, 2017		December 31, 2018	
	Fixed rate	Variable rate	Fixed rate	Variable rate
<b>Financial assets</b>				
Japanese government bonds . . . . .	280	—	280	—
Time deposits . . . . .	12,002	—	11,507	—
Loan receivables . . . . .	116	—	110	—
Corporate bonds and other debt instruments . . . . .	8,835	—	18,005	—
<b>Total financial assets</b> . . . . .	<u>21,233</u>	<u>—</u>	<u>29,902</u>	<u>—</u>
<b>Financial liabilities</b>				
Short-term borrowings . . . . .	43	22,042	—	23,000
<b>Total financial liabilities</b> . . . . .	<u>43</u>	<u>22,042</u>	<u>—</u>	<u>23,000</u>

The Group has exposure to interest rate risk as it possesses financial assets and liabilities set out in the above. The analysis below was performed using outstanding balance of the financial liabilities set out in the above as of December 31, 2017 and 2018, as well as using balance of debt instrument as of December 31, 2018, assuming such liabilities and assets were outstanding for the full fiscal year immediately before the respective dates, while holding all other variables constant. Potential effects on shareholders' equity and profit or loss for one year from the reporting date as a result of a change in the interest rate are as follows.

(In millions of yen)

	December 31, 2017			
	Shareholders' equity		Profit or (loss) before tax	
	Increase of 50 basis points	Decrease of 50 basis points	Increase of 50 basis points	Decrease of 50 basis points
Interest expenses . . . . .	(75)	13	(110)	19

(In millions of yen)

	December 31, 2018			
	Shareholders' equity		Profit or (loss) before tax	
	Increase of 50 basis points	Decrease of 50 basis points	Increase of 50 basis points	Decrease of 50 basis points
Interest expenses . . . . .	(79)	16	(115)	23

(In millions of yen)

	December 31, 2018			
	Shareholders' equity		Other comprehensive income/(loss)	
	Increase of 50 basis points	Decrease of 50 basis points	Increase of 50 basis points	Decrease of 50 basis points
Debt instruments . . . . .	(145)	86	(212)	125

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**25. Financial Risk Management (continued)**

(5) Capital management

The Group maintains a strong capital base to ensure the Group will be able to continue as a going concern. In addition, through management of the debt and equity balances, the Group aims to maintain investor, creditor and market confidence, and to sustain future development of the business. For the year ended December 31, 2018, the Group issued corporate bonds to meet the cash demand for the investment for further growth of business to improve the Group's corporate value in medium term. In order to achieve sustainable growth, the Group understands that financing capacities sufficient to make business investments when there are opportunities, such as the acquisition of external resources for business growth, are required. The equity and major liabilities are as follows:

*(In millions of yen)*

	<b>December 31, 2017</b>	<b>December 31, 2018</b>
Short-term borrowings . . . . .	22,224	23,000
Corporate bonds . . . . .	—	142,132
Total . . . . .	<u>22,224</u>	<u>165,132</u>
Total shareholders' equity . . . . .	189,977	208,514

The Group is not subject to any externally imposed capital requirements.

**26. Fair Value Measurements**

(1) Fair value hierarchy

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

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

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



LINE Corporation

Notes to Consolidated Financial Statements (continued)

**26. Fair Value Measurements (continued)**

(2) Fair value measurements by fair value hierarchy

Assets and liabilities measured at fair value on a recurring basis in the Consolidated Statements of Financial Position as of December 31, 2017 and 2018 are as follows:

	<i>(In millions of yen)</i>			
<u>December 31, 2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial asset at fair value through profit or loss				
Conversion right and redemption right of preferred stock . . . .	—	—	1,862	1,862
Available-for-sale financial assets				
Listed equity investments . . . . .	1,574	—	—	1,574
Private equity and other financial instruments . . . . .	—	—	13,820	13,820
<b>Total</b> . . . . .	<u>1,574</u>	<u>—</u>	<u>15,682</u>	<u>17,256</u>
Financial liability at fair value through profit or loss				
Put option liabilities . . . . .	—	—	486	486
<b>Total</b> . . . . .	<u>—</u>	<u>—</u>	<u>486</u>	<u>486</u>

	<i>(In millions of yen)</i>			
<u>December 31, 2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial asset at fair value through profit or loss . . . . .	—	—	10,261	10,261
Financial assets at FVOCI . . . . .				
Equity instruments . . . . .	791	—	6,505	7,296
Debt instruments . . . . .	—	18,005	—	18,005
<b>Total</b> . . . . .	<u>791</u>	<u>18,005</u>	<u>16,766</u>	<u>35,562</u>
Financial liability at fair value through profit or loss . . . . .				
Put option liabilities . . . . .	—	—	296	296
<b>Total</b> . . . . .	<u>—</u>	<u>—</u>	<u>296</u>	<u>296</u>

Financial assets at FVOCI as of December 31, 2018 are as follows:

	<i>(In millions of yen)</i>
	<u>December 31, 2018</u>
Marketable . . . . .	791
Non-marketable <sup>(1)</sup> . . . . .	6,505
<b>Total</b> . . . . .	<u>7,296</u>

<sup>(1)</sup> The fair value of non-marketable equity instruments measured at FVOCI are mainly consist of finance related business of 3,000 million yen, AI of 1,192 million yen, and other business of 2,313 million yen.

The Group made irrevocable election to designate a financial asset measured at FVOCI at initial recognition for the investment that are aimed to mid to long-term strategy instead of held for trading.

The dividend income for the equity instruments measured at FVOCI is immaterial for the year ended December 31, 2018.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**26. Fair Value Measurements (continued)**

(2) Fair value measurements by fair value hierarchy (continued)

The accumulated other comprehensive income for the equity instruments measured at FVOCI which derecognized are transferred to retained earnings. For the year ended December 31, 2018, 2,230 million yen (profit) were transferred.

Assets and liabilities not measured at fair values in the Consolidated Statements of Financial Position, but for which fair values are disclosed as of December 31, 2017 and 2018 are as follows:

*(In millions of yen)*

<u>December 31, 2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Held-to-maturity investments				
Japanese government bonds . . . . .	—	291	—	291
Loans and receivables				
Corporate bonds and other debt instruments . . . . .	—	8,036	—	8,036
Office security deposits . . . . .	—	5,546	—	5,546
<b>Total</b> . . . . .	<u>—</u>	<u>13,873</u>	<u>—</u>	<u>13,873</u>
Financial liability at amortized cost				
Office securities deposits received under sublease agreement . . . . .	—	23	—	23
<b>Total</b> . . . . .	<u>—</u>	<u>23</u>	<u>—</u>	<u>23</u>

*(In millions of yen)*

<u>December 31, 2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at amortized cost				
Corporate bonds and other debt instruments . . . . .	—	288	—	288
Guarantee deposits . . . . .	—	123	—	123
Office security deposits . . . . .	—	9,050	—	9,050
<b>Total</b> . . . . .	<u>—</u>	<u>9,461</u>	<u>—</u>	<u>9,461</u>
Financial liability at amortized cost				
Office securities deposits received under sublease agreement . . . . .	—	16	—	16
Corporate bonds . . . . .	—	143,743	—	143,743
<b>Total</b> . . . . .	<u>—</u>	<u>143,759</u>	<u>—</u>	<u>143,759</u>

There have been no transfers among Level 1, Level 2 and Level 3 during the years ended December 31, 2017 and 2018, except for the transfer from Level 1 to Level 3 as described in (3) below.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

26. Fair Value Measurements (continued)

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

*(In millions of yen)*

	2017			2018		
	Private equity and other financial instruments	Conversion right and redemption right of preferred stock	Put option liabilities	Financial assets at fair value through profit or loss	Financial assets at FVOCI Equity instruments	Put option liabilities
Fair value at the beginning of the year <sup>(4)</sup> . . . . .	12,795	325	—	7,143	8,539	(486)
Total (loss)/gain for the year:						
Included in profit or loss <sup>(1)</sup> . . . . .	(1,535)	1,062	7	(553)	—	(74)
Included in other comprehensive income <sup>(2)</sup> . . . . .	(2,456)	—	—	—	(1,916)	—
Comprehensive (loss)/income . . . . .	(3,991)	1,062	7	(553)	(1,916)	(74)
Purchases . . . . .	4,949	363	(457)	4,763	5,029	(16)
Sales and settlements <sup>(5)</sup> . . . . .	(1,619)	—	—	—	(4,176)	—
Exercise of options . . . . .	—	—	—	—	—	250
Return of capital . . . . .	(121)	—	—	—	—	—
Increase due to business combination . . . . .	610	—	(33)	—	—	—
Transfers in <sup>(3)</sup> . . . . .	326	—	—	—	—	—
Decrease due to loss of control . . . . .	—	—	—	(963)	(595)	26
Other . . . . .	—	—	—	138	(110)	(3)
Effect of exchange rate changes . . . . .	871	112	(3)	(267)	(266)	7
Fair value at the end of the year . . . . .	<u>13,820</u>	<u>1,862</u>	<u>(486)</u>	<u>10,261</u>	<u>6,505</u>	<u>(296)</u>

(1) This amount is included in “Other non-operating income” or “Other non-operating expenses” in the Group’s Consolidated Statements of Profit or Loss.

(2) This amount is included in “Net changes in fair value of available-for-sale financial assets” and “Net changes in fair value of equity instruments at FVOCI” in the Group’s Consolidated Statements of Comprehensive Income.

(3) During the year ended December 31, 2017, the issuing company of the equity was delisted from a stock exchange in the U.S. subsequent to our purchase of its equity securities. Accordingly, such equity investment was transferred from Level 1 to Level 3.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**26. Fair Value Measurements (continued)**

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

- (4) Classification of financial instruments changed due to the adoption of IFRS 9 for the year ended December 31, 2018. This amount includes the fair value of conversion right and redemption right of preferred stock 1,862 million yen at the year ended December 31, 2017. Refer to Note 3 Significant Accounting Policies for more details.
- (5) During the year ended December 31, 2018, the Group sold financial assets at FVOCI. The cumulative gain on disposal (profit) amounted to 2,267 million yen.

(4) Valuation techniques and inputs

Assets and liabilities measured at fair value on a recurring basis in the Group's Consolidated Statements of Financial Position

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss within Level 3 mainly consist of private equity investment funds, conversion right and redemption right of preferred stock. As of December 31, 2017 and 2018, conversion right and redemption right of preferred stock was measured at fair value using mainly a binominal option pricing model. In addition, the private equity investment funds are measured at fair value based on the most recent available net asset value, and preferred stocks are measured at fair value either based on the most recent transactions or the discount cash flow model as of December 31, 2018. Below is the quantitative information regarding the valuation technique and significant unobservable inputs used in measuring the fair value of financial assets at fair value through profit or loss categorized within Level 3:

<u>Valuation technique</u>	<u>Significant unobservable input</u>	<u>2017</u>	<u>2018</u>
Discount cash flow model . . . . .	Discount rate	—	16.0%
	Growth rate	—	2.0%
Binomial option pricing model . . . . .	Comparable listed companies' average historical volatility	46.0%-49.2%	53.3%-54.0%
	Discount rate	2.5%	2.0%-2.2%

A significant increase (decrease) in the growth rate, the fair value of the preferred stock would result in a higher (lower) fair value of the preferred stock. On the other hand, a significant increase (decrease) in discount rate would result in a lower (higher) fair value of the preferred stock.

A significant increase (decrease) in the comparable listed companies' average historical volatility would result in a higher (lower) fair value of the conversion right and redemption right of preferred stock, while a significant increase (decrease) in the discount rate would result in a lower (higher) fair value of the conversion right and redemption right of preferred stock.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**26. Fair Value Measurements (continued)**

(4) Valuation techniques and inputs (continued)

*Put option liabilities*

The put option liabilities are options written on shares of subsidiaries, associates, and investments. Such put option liabilities are measured at fair value using mainly option pricing model or the Monte Carlo simulation. Below is the quantitative information regarding the valuation techniques and significant unobservable inputs used in measuring the fair value of certain put option liabilities:

Valuation technique	Significant unobservable input	2017	2018
Option pricing model . . . . .	Comparable listed companies' average historical volatility	45.0%	51.9%
	Discount rate	4.3%	1.8%
Monte Carlo simulation . . . . .	Comparable listed companies' average historical volatility	41.4%-49.2%	43.1%
	Discount rate	2.5%	2.0%

A significant increase (decrease) in the comparable listed companies' average historical volatility would result in a higher (lower) fair value of the put option liabilities, while a significant increase (decrease) in the discount rate would result in a lower (higher) fair value of the put option liabilities.

*Financial assets at fair value through other comprehensive income*

Financial assets at FVOCI categorized within Level 2 consist of bonds. Such bonds are measured at fair value using discount cash flow model and using the observable input such as estimated yield rate when acquiring a similar debt instruments.

Financial assets at FVOCI within Level 3 is mainly consist of unlisted equity securities. Such unlisted equity securities are measured at fair value based on the valuation techniques such as market approach for the year ended December 31, 2018. Below is the quantitative information regarding the valuation techniques and significant unobservable inputs used in measuring the fair value of certain unlisted equity securities.

Valuation technique	Significant unobservable input	2017	2018
Market approach-market comparable companies . . . . .	Revenue multiple	—	1.3-9.1
	Liquidity discount	—	30.0%

A significant increase (decrease) in the revenue multiple would result in a higher (lower) fair value of the unlisted equity securities, while a significant increase (decrease) in the liquidity discount and discount rate, would result in a lower (higher) fair value of the unlisted equity securities.

*Available-for-sale financial assets*

Available-for-sale financial assets categorized within Level 3 mainly consist of unlisted equity securities and private equity investment funds. Private equity investment funds were measured at fair value based on net asset value as of December 31, 2017.

Unlisted equity securities are measured at fair value either based on the most recent transactions, the market approach and option pricing model, or the discount cash flow model. Below is the quantitative information

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**26. Fair Value Measurements (continued)**

(4) Valuation techniques and inputs (continued)

*Available-for-sale financial assets (continued)*

regarding the valuation techniques and significant unobservable inputs used in measuring the fair value of certain unlisted equity securities:

Valuation technique	Significant unobservable input	2017	2018
Market approach-market comparable companies . . . . .	EBITDA multiple	11.6-12.8	—
	EBIT multiple	11.4-19.3	—
	Revenue multiple	1.4-6.2	—
	Liquidity discount	30.0%	—
Option pricing model . . . . .	Comparable listed companies' average historical volatility	49.7%-76.2%	—
	Discount rate	(0.1%)-2.6%	—
	Discount cash flow model . . . . .	Discount rate	12.8%-13.0%
	Growth rate	1.0%-2.0%	—

A significant increase (decrease) in the EBITDA, EBIT, revenue multiple and growth rate would result in a higher (lower) fair value of the unlisted equity securities, while a significant increase (decrease) in the liquidity discount, comparable listed companies' average historical volatility and discount rate, would result in a lower (higher) fair value of the unlisted equity securities.

The valuation techniques and the valuation results of the Level 3 financial assets, including those performed by the external experts, were reviewed and approved by the management of the Group.

Assets and liabilities not measured at fair value in the Consolidated Statements of Financial Position, but for which fair values are disclosed

*Corporate bonds (asset) and other debt instruments, guarantee deposits, office security deposits, office security deposits received under sublease agreements, and corporate bonds (liability)*

The fair values of the corporate bonds (asset) and other debt instruments, guarantee deposits, office security deposits, office security deposits received under sublease agreements, and corporate bonds (liability) are calculated by using the discounted cash flow model which utilizes observable inputs such as risk-free interest rates and credit risk spreads of the Group as of the reporting dates.

**27. Share-Based Payments**

The Group has stock option incentive plans for directors and employees.

(1) Stock Option Plan

For the stock options granted during the years ended December 31, 2012, 2013, 2014, and 2015, each stock option represents the right to purchase 500 common shares at a fixed price for a defined period of time. The exercise price of stock options, which were granted during the years ended December 31, 2012 and 2013 was 344 yen, whereas that of those options, which were granted during the years ended December 31, 2014 and 2015 was 1,320 yen.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**27. Share-Based Payments (continued)**

(1) Stock Option Plan (continued)

In the year ended December 31, 2017, the Company has granted 23,860 of stock options equivalent to 2,386,000 of common shares with the exercise price of 4,206 yen.

The fair value of stock options is determined using the Black-Scholes model, a commonly accepted stock option pricing method.

Stock options granted during the years ended December 31, 2012, 2013, 2014 and 2015 vest after two years from the grant date and are exercisable for a period of eight years from the vesting date. Stock options granted during the year ended December 31, 2017 vest 25% of stock options per year over a period of four years from the grant date and are exercisable from the vesting date until July 18, 2027.

Conditions for vesting and exercise of the stock options require that those who received the allotment of stock options continue to be employed by the Group from the grant date to the vesting date, and from the grant date to the exercise date, respectively, unless otherwise permitted by the board of directors. Refer to Note 4 Significant Accounting Judgments, Estimates and Assumptions (f) for more details on the valuation methodology of stock options, and the assumptions used in such valuation.

There were no cancellations or modifications to the awards in 2016, 2017 or 2018.

On June 15, 2015, through the amendment of its articles of incorporation, the Company introduced a dual class structure of common shares and class A shares. Under the dual class structure, each common share has one vote per unit of 100 shares, and each class A share has one vote per unit of 10 shares, while both classes of shares have the same rights to share in profit, distribution of retained earnings and residual assets. Additionally, the Company amended the terms applicable to a portion of two tranches of stock options. As a result of the amendment, 24,724 Common Stock Options originally granted on December 17, 2012 and 6,949 Common Stock Options originally granted on February 4, 2015 were converted to Class A Stock Options. While all other contract terms remain unchanged, the holders of Class A Stock Options are entitled to acquire 500 class A shares upon exercise of each stock option. The Class A Stock Options are mandatorily converted to Common Stock Options on a one-to-one basis upon passage of time or occurrence of certain events as specified in the terms and conditions of Class A Stock Options.

Through an amendment of its article of incorporation effective as of March 31, 2016, the Company amended the terms applicable to stock options from class A shares to common shares.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**27. Share-Based Payments (continued)**

(1) Stock Option Plan (continued)

i. Movements during the years ended December 31, 2016, 2017 and 2018

The following table illustrates the number and weighted average exercise prices (“WAEP”) of, and movements in, outstanding stock options on a per-common-share basis during the year:

	2016			
	Common Stock Options		Class A Stock Options	
	Number (shares)	WAEP (yen per share)	Number (shares)	WAEP (yen per share)
Outstanding at January 1	9,848,000	827	15,836,500	558
Granted during the year	—	—	—	—
Forfeited during the year	(239,500)	1,137	—	—
Exercised during the year <sup>(1)</sup>	(2,533,500)	691	—	—
Expired during the year	—	—	—	—
Conversion of Class A Stock Options to Common Stock Options	15,836,500	558	(15,836,500)	558
Outstanding at December 31	<u>22,911,500</u>	<u>653</u>	<u>—</u>	<u>—</u>
Exercisable at December 31	<u>17,321,500</u>	<u>438</u>	<u>—</u>	<u>—</u>
	2017			
	Common Stock Options			
	Number (shares)	WAEP (yen per share)		
Outstanding at January 1	22,911,500	653		
Granted during the year	2,386,000	4,206		
Forfeited during the year	(7,000)	1,320		
Exercised during the year <sup>(1)</sup>	(19,713,500)	583		
Expired during the year	—	—		
Outstanding at December 31	<u>5,577,000</u>	<u>2,421</u>		
Exercisable at December 31	<u>3,191,000</u>	<u>1,086</u>		
	2018			
	Common Stock Options			
	Number (shares)	WAEP (yen per share)		
Outstanding at January 1	5,577,000	2,421		
Granted during the year	—	—		
Forfeited during the year <sup>(1)</sup>	(983,200)	4,178		
Exercised during the year <sup>(2)</sup>	(855,500)	1,171		
Expired during the year	—	—		
Outstanding at December 31	<u>3,738,300</u>	<u>2,245</u>		
Exercisable at December 31	<u>2,701,400</u>	<u>1,492</u>		

<sup>(1)</sup> For the year ended December 31, 2018, the number of forfeited stock options include 763,300 shares of revocation due to waiver of rights.



LINE Corporation

Notes to Consolidated Financial Statements (continued)

**27. Share-Based Payments (continued)**

(1) Stock Option Plan (continued)

(2) The weighted average share price at the date of exercise of these options during the years ended December 31, 2017 and 2018 were 4,580 yen and 4,245 yen, respectively.

ii. The exercise price and the number of shares for options outstanding as of December 31, 2016, 2017 and 2018 are as follows:

<u>Grant dates</u>	<u>Exercise price (yen)</u>	<u>Number (Shares)</u>		
		<u>December 31, 2016</u>	<u>December 31, 2017</u>	<u>December 31, 2018</u>
December 18, 2012 .....	344	14,000,000	—	—
December 17, 2013 .....	344	1,654,000	763,500	544,500
February 8, 2014 .....	1,320	1,135,000	818,000	649,000
August 9, 2014 .....	1,320	311,000	218,000	148,500
November 1, 2014 .....	1,320	221,500	145,000	122,500
February 4, 2015 .....	1,320	5,590,000	1,246,500	891,500
July 18, 2017 .....	4,206	—	2,386,000	1,382,300

iii. The weighted average remaining contractual life for the stock options outstanding as of December 31, 2016, 2017 and 2018 was 6.7 years, 7.8 years and 6.6 years, respectively.

iv. The following tables list the inputs to the models used for deriving the fair value of the stock options granted for the years ended December 31, 2016, 2017 and 2018.

	<u>Grant dates</u>
	<u>July 18, 2017</u>
Dividend yield .....	0.0%
Expected volatility .....	44.9-45.7%
Risk-free interest rate .....	(0.04)-0.00%
Expected life of stock options (years) .....	5.5-7
Exercise price (yen) .....	4,206
Fair value per common share at the grant date (yen) .....	3,840
Model used .....	Black-Scholes

During the years ended December 31, 2016 and 2018, no stock options were granted. The weighted average fair value of the options granted on July 18, 2017 was 1,545 yen on a per-common-share basis. The expected volatility was derived from the historical volatility over a period similar to the expected life of the stock options for publicly listed companies that are comparable to the Company and the Group. As the expected volatility is derived from an estimate of future trends, the actual result may differ.

v. The expenses recognized in connection with share-based payments during the years ended December 31, 2016, 2017 and 2018 are shown in the following table:

	<i>(In millions of yen)</i>		
	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total expenses arising from equity-settled share-based payment transactions .....	9,519	1,602	559

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**27. Share-Based Payments (continued)**

(2) Equity-settled Employee Stock Ownership Plan (J-ESOP)

The Group has a Group policy, the Regulations on Stock Compensation, which regulates an incentive for the employees in line with the stock price movement and for the purpose of securing excellent human resources and their long-term success.

In accordance with the Regulations on Stock Compensation, the Group has granted points equivalent to 262,069 shares, 26,946 shares and 260,133 shares to the employees of the Group on July 18, 2017, January 1, 2018 and July 20, 2018 respectively. The points vest once the employees who received the points satisfy the conditions under the Regulations on the Stock Compensation. As the points vest, the trust grants the Company's shares equivalent to the number of points, which the trust owns, to the employees of the Company and its domestic subsidiary.

Under the Regulations on Stock Compensation, the employees granted the points on July 18, 2017 are required to be employed by the Group until the vesting dates, which are set between April 1, 2018 and April 1, 2020. The employees granted the points on January 1, 2018 are required to be employed by the Group until the vesting date, which are between October 1, 2018 and October 1, 2020. The employees granted the points on July 20, 2018 are required to be employed by the Group until the vesting date, which are between April 1, 2019 and April 1, 2021.

i. Movements during the year ended December 31, 2017 and 2018

The following table illustrates the movements in outstanding points during the years ended December 31, 2017 and 2018:

	<b>J-ESOP</b>	
	<b>(Equity-settled)</b>	
	<b>Number of points<sup>(1)</sup></b>	
	<b>2017</b>	<b>2018</b>
Outstanding at January 1 . . . . .	—	251,302
Granted during the year . . . . .	262,069	287,079
Forfeited during the year . . . . .	(10,767)	(35,091)
Exercised during the year . . . . .	—	(57,889)
Expired during the year . . . . .	—	—
Outstanding at December 31 . . . . .	<u>251,302</u>	<u>445,401</u>
Exercisable at December 31 . . . . .	<u>—</u>	<u>5,275</u>

<sup>(1)</sup> One point is equal to one share.

ii. The Group's J-ESOP does not have an exercise price as the employees receive the number of shares equivalent to the points. The weighted average remaining contractual life as of December 31, 2017 and 2018 was 1.5 years and 1.2 years respectively.

iii. The fair value of the points issued on July 18, 2017 was 3,840 yen, which was equivalent to the share price of the grant day. The fair value of the points issued on January 1, 2018 and July 20, 2018 were equivalent to the grant day of 4,865 yen and 5,130 yen, respectively.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**27. Share-Based Payments (continued)**

(2) Equity-settled Employee Stock Ownership Plan (J-ESOP) (continued)

- iv. The expenses recognized in connection with share-based payments during the years ended December 31, 2016, 2017 and 2018 are shown in the following table:

	<i>(In millions of yen)</i>		
	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total expenses arising from equity-settled share-based payment transactions . . . . .	—	279	827

(3) Cash-settled Employee Stock Ownership Plan (J-ESOP)

In accordance with the Regulations on Stock Compensation, the Group has granted points equivalent to 567,056 shares, 58,660 shares and 543,733 shares to the employees of the Group on July 18, 2017, January 1, 2018 and July 20, 2018 respectively. The points vest once the employees who received the points satisfy the conditions under the Regulations on the Stock Compensation. As the points vest, the trust sells the shares of the Company which are equivalent to the number of points in the market and distributes the cash obtained from the transaction to the employees.

Under the Regulations on Stock Compensation, the employees granted the points on July 18, 2017 are required to be employed by the Group until the vesting dates, which are set between April 1, 2018 and April 1, 2020, the employees granted the points on January 1, 2018 are required to be employed by the Group until the vesting dates, which are set between October 1, 2018 and October 1, 2020, employees granted the points on July 20, 2018 are required to be employed by the Group until the vesting dates, which are set between April 1, 2019 and April 1, 2021.

- i. Movements during the year ended December 31, 2017 and 2018

The following table illustrates the movements in outstanding points during the years ended December 31, 2017 and 2018:

	<b>J-ESOP (Cash-settled)</b>	
	<u>Number of points<sup>(1)</sup></u>	
	<u>2017</u>	<u>2018</u>
Outstanding at January 1 . . . . .	—	533,502
Granted during the year . . . . .	567,056	602,393
Forfeited during the year . . . . .	(33,554)	(101,430)
Exercised during the year . . . . .	—	(143,841)
Expired during the year . . . . .	—	—
Outstanding at December 31 . . . . .	<u>533,502</u>	<u>890,624</u>
Exercisable at December 31, . . . . .	<u>—</u>	<u>2,373</u>

<sup>(1)</sup> One point is equal to one share.

- ii. The Group's J-ESOP does not have an exercise price as the employees receive the amount of cash equivalent to the points. The weighted average remaining contractual life as of December 31, 2017 and 2018 was 1.5 years and 1.2 years, respectively.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**27. Share-Based Payments (continued)**

(3) Cash-settled Employee Stock Ownership Plan (J-ESOP) (continued)

- iii. The fair value of the points granted on July 18, 2017 as of the grant date and the measurement date were the share price as of the grant date of 3,840 yen and the share price of December 31, 2017 of 4,595 yen, respectively. The fair value of the points granted on January 1, 2018 and July 20, 2018 as of the grant date were the share price of the grant date of 4,865 yen and 5,130 yen, respectively. The fair value as of the measurement date was the share price as of December 31, 2018 of 3,775 yen for all of the points granted on the aforementioned dates.
- iv. The expenses recognized in connection with share-based payments during the years ended December 31, 2016, 2017 and 2018 are shown in the following table:

	<i>(In millions of yen)</i>		
	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total expenses arising from cash-settled share-based payment transactions .....	—	805	1,142

- v. The Group has recognized nil of liabilities associated with Cash-settled J-ESOP in the Consolidated Statement of Financial Position as of December 31, 2016. The Group has recognized current liabilities of 400 million and 758 million yen as of December 31, 2017 and 2018, respectively and non-current liabilities of 434 million yen and 669 million yen as of December 31, 2017 and 2018, respectively.
- vi. The amount of the liabilities fixed as of December 31, 2018 amounted to 12 million yen and the no liabilities were fixed as of December 31, 2017.

**28. Related Party Transactions**

Note 30 Principal Subsidiaries provides information about the Group's structure, including details of the subsidiaries and the parent company. The following table provides the total amount of outstanding balances and related party transactions entered into during 2016, 2017 and 2018.

- (1) Significant related party transactions and outstanding balances with related parties during the year ended December 31, 2016 are as follows:

<i>(In millions of yen)</i>				
<u>Relationship</u>	<u>Name</u>	<u>Transaction</u>	<u>Transaction amount</u>	<u>Outstanding receivable/ (payable) balances<sup>(3)</sup></u>
Parent company .....	NAVER	Advertising service <sup>(1)</sup>	332	67
Subsidiary of parent company .....	NAVER Business Platform Corp. <sup>(2)</sup>	Operating expenses	7,458	(902)

- (1) LINE Plus and NAVER entered into an agreement for exchange of services in which LINE Plus provides advertising services via the LINE platform and the right to use certain LINE characters in exchange for NAVER's advertising services for LINE Plus via NAVER's web portal. The Group generated advertising revenues of 332 million yen in connection with the advertising services provided to NAVER for the year ended December 31, 2016.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**28. Related Party Transactions (continued)**

(1) Significant related party transactions and outstanding balances with related parties during the year ended December 31, 2016 are as follows (continued):

(2) This subsidiary of NAVER provided IT infrastructure services and related development services to the Group.

(3) The receivable and payable amounts outstanding are unsecured and will be settled in cash.

(2) Significant related party transactions and outstanding balances with related parties during the year ended December 31, 2017 are as follows:

(In millions of yen)

Relationship	Name	Transaction	Transaction amount	Outstanding receivable/ (payable) balances <sup>(3)</sup>
Parent company . . . . .	NAVER	Advertising service <sup>(1)</sup>	518	108
Subsidiary of parent company . . . . .	NAVER Business Platform Corp. <sup>(2)</sup>	Operating expenses	8,475	(976)
Associate of the Group . . . . .	Snow Corporation	Transfer of camera application business <sup>(4)</sup>	10,651	—
Director of the Company . . . . .	Joongho Shin	Exercise of stock options <sup>(5)</sup>	6,922	—
Director of the Company . . . . .	Hae Jin Lee	Exercise of stock options <sup>(5)</sup>	1,917	—

(1) LINE Plus Corporation and NAVER entered into an agreement for exchange of services in which LINE Plus Corporation provides advertising services via the LINE platform and the right to use certain LINE characters in exchange for NAVER's advertising services for LINE Plus via NAVER's web portal. The Group generated advertising revenues of 518 million yen in connection with the advertising services provided to NAVER for the year ended December 31, 2017.

(2) This subsidiary of NAVER provided IT infrastructure services and related development services to the Group.

(3) The receivable and payable amounts outstanding are unsecured and will be settled in cash.

(4) In May, 2017, LINE Plus Corporation transferred its camera application business to Snow Corporation. In exchange for the transfer of the business, LINE Plus Corporation received 208,455 newly issued common shares of Snow Corporation, and the transaction amount represents the fair value of the newly issued common shares received on the transaction date. Refer to Note 20 Supplemental Cash Flow Information for further details.

(5) Stock options which had been issued with resolution at the meeting of board of director on December 17, 2012 and January 30, 2015, have been exercised. The transaction amount includes the amount paid in by exercising stock options during the year ended December 31, 2017.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**28. Related Party Transactions (continued)**

- (3) Significant related party transactions and outstanding balances with related parties during the year ended December 31, 2018 are as follows:

*(In millions of yen)*

<u>Relationship</u>	<u>Name</u>	<u>Transaction</u>	<u>Transaction amount</u>	<u>Outstanding receivable/ (payable) balances<sup>(4)</sup></u>
Parent company . . . . .	NAVER	Underwrite of convertible Bonds <sup>(1)</sup>	74,989	(71,901)
Parent company . . . . .	NAVER	Advertising service <sup>(2)</sup>	663	184
Subsidiary of parent company . . . . .	NAVER Business Platform Corp. <sup>(3)</sup>	Operating expenses	8,566	(883)

(1) During the year ended December 31, 2018, the Group issued Euro-yen convertible bonds with stock acquisition rights through two of the separate third-party allotments to NAVER Corporation, amounted to 37,494.5 million yen (Zero coupon convertible bonds due 2023) and 37,494.5 million yen (Zero coupon convertible bonds due 2025). The amount shown for the outstanding payable balance is the liability measured at amortized cost as of December 31, 2018 excluding the equity components. Refer to Note 15 Financial assets and financial liabilities for further detail.

(2) LINE Plus Corporation and NAVER entered into an agreement for exchange of services in which LINE Plus Corporation provides advertising services via the LINE platform and the right to use certain LINE characters in exchange for NAVER's advertising services for LINE Plus via NAVER's web portal. The Group generated advertising revenues of 663 million yen in connection with the advertising services provided to NAVER for the year ended December 31, 2018.

(3) This subsidiary of NAVER provided IT infrastructure services and related development services to the Group.

(4) The receivable and payable amounts outstanding are unsecured and will be settled in cash.

- (4) The total compensation of key management personnel for the years ended December 31, 2016, 2017 and 2018 is as follows:

*(In millions of yen)*

	<u>2016</u>	<u>2017</u>	<u>2018</u>
Salaries (including bonuses) . . . . .	459	739	704
Share-based payments <sup>(1)</sup> . . . . .	5,714	928	780
Other . . . . .	—	—	43
<b>Total</b> . . . . .	<u>6,173</u>	<u>1,667</u>	<u>1,527</u>

(1) Refer to Note 27 Share-Based Payments for further details.

Key management personnel includes directors and corporate auditors of the Company.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**29. Business Combinations**

**Acquisition in 2016**

*Acquisition of M.T. Burn*

On February 29, 2016, the Group acquired 50.5% of the voting shares of M.T. Burn Inc., (“M.T. Burn”), an unlisted company based in Japan, specialized in developing and providing a native mobile advertising platform, “Hike”. M.T. Burn became a consolidated subsidiary. The Group acquired M.T. Burn for the purpose of enhancing the Group’s knowledge and technological capability for advertisement. The final purchase price allocation of M.T. Burn was completed in the second quarter of 2016.

**Assets acquired and liabilities assumed**

The identifiable assets and liabilities of M.T. Burn, which are measured at fair value as of the date of acquisition except for limited exceptions in accordance with IFRS, were as follows:

	<i>(In millions of yen)</i>
	<b>Fair value recognized on acquisition</b>
<b>Assets</b>	
Cash and cash equivalents . . . . .	87
Trade receivables . . . . .	83
Customer relationships . . . . .	401
Software . . . . .	26
Deferred tax assets . . . . .	88
Other assets . . . . .	<u>1</u>
	<u>686</u>
<b>Liabilities</b>	
Trade and other payables . . . . .	78
Other financial liabilities, current . . . . .	50
Other financial liabilities, non-current . . . . .	210
Deferred tax liabilities . . . . .	149
Other liabilities . . . . .	<u>13</u>
	<u>500</u>
<b>Total identifiable net assets at fair value . . . . .</b>	<u>186</u>
Non-controlling interest . . . . .	(92)
Goodwill . . . . .	<u>416</u>
<b>Total consideration . . . . .</b>	<u><u>510</u></u>

All consideration was paid in cash. The fair value of the trade receivables was 83 million yen. The gross contractual amounts of the trade receivables were not materially different from the fair value determined as part of the purchase price allocation.

Non-controlling interest in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity’s net assets in the event of liquidation are measured at the present ownership

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**29. Business Combinations (continued)**

**Acquisition in 2016 (continued)**

*Acquisition of M.T. Burn (continued)*

interests' proportionate share in the recognized amounts of the acquiree's identifiable net assets at the acquisition date.

Goodwill of 416 million yen represented the value of expected synergies arising from the acquisition and was allocated entirely to the LINE business and portal segment. Subsequently, in line with the change in the CGU for the year ended December 31, 2018, the goodwill was mainly allocated to the Core Business segment. None of the goodwill recognized was expected to be deductible for income tax purposes.

From the date of acquisition, M.T. Burn had contributed 252 million yen to revenue and had reduced profit from continuing operations of the Group by 1,305 million yen for the year ended December 31, 2016. If the combination had taken place on January 1, 2016, revenue for the Group would have been 140,841 million yen (unaudited) and profit from continuing operations for the Group would have been 9,076 million yen (unaudited) for the year ended December 31, 2016.

Acquisition related transaction costs of 5 million yen have been expensed and are included in "Other operating expenses" in the Group's Consolidated Statements of Profit or Loss.

*(In millions of yen)*

**Analysis of cash flows on acquisition:**

Total consideration related to the acquisition . . . . .	(510)
Net cash and cash equivalents acquired at the acquisition date . . . . .	<u>87</u>

<b>Net cash flows on acquisition (included in cash flows from investing activities) . . . . .</b>	<b><u>(423)</u></b>
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**Acquisition in 2017**

*Acquisition of NextFloor Group*

On July 24, 2017, the Group acquired 51.0% of the voting shares of NextFloor Corporation. ("NextFloor"), an unlisted company based in Korea, specializing in developing and publishing smartphone games. As a result of the acquisition, the Group obtained control, and NextFloor and its subsidiaries ("NextFloor Group") became consolidated subsidiaries of the Group. The Group acquired NextFloor for the purpose of acquiring an organizational structure to develop and operate mainly middle core game contents. The valuation of the fair values of the assets acquired and the liabilities assumed was completed in the fourth quarter of 2017 and unchanged as compared the preliminary assessment at the time of acquisition.



LINE Corporation

Notes to Consolidated Financial Statements (continued)

**29. Business Combinations (continued)**

**Acquisition in 2017 (continued)**

*Acquisition of NextFloor Group (continued)*

**Assets acquired and liabilities assumed**

The identifiable assets and liabilities of NextFloor Group, which are measured at fair value as of the date of acquisition except for limited exceptions in accordance with IFRS, were as follows:

	<i>(In millions of yen)</i>
	<b>Fair value recognized on acquisition</b>
<b>Assets</b>	
Cash and cash equivalents . . . . .	1,946
Trade receivables . . . . .	335
Other financial assets, current . . . . .	307
Other financial assets, non-current . . . . .	754
Property and equipment . . . . .	145
Intangible assets . . . . .	
Software . . . . .	153
Publishing rights . . . . .	1,640
Other intangible assets . . . . .	277
Investments in associates . . . . .	805
Other assets . . . . .	320
	<u>6,682</u>
<b>Liabilities</b>	
Trade and other payables . . . . .	404
Other financial liabilities, current . . . . .	123
Other financial liabilities, non-current . . . . .	63
Deferred tax liabilities . . . . .	391
Other liabilities . . . . .	264
	<u>1,245</u>
<b>Total identifiable net assets at fair value . . . . .</b>	<u>5,437</u>
Non-controlling interest . . . . .	(2,664)
Goodwill . . . . .	<u>3,154</u>
<b>Total consideration . . . . .</b>	<u>5,927</u>

All consideration was paid in cash except for the loan receivables of 1,976 million yen from NextFloor to the Group, which was converted into the common shares of NextFloor. The fair value of the trade receivables was 335 million yen. The gross contractual amounts of the trade receivables were not materially different from the fair value determined as part of the purchase price allocation.

Non-controlling interest in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at the present ownership

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**29. Business Combinations (continued)**

**Acquisition in 2017 (continued)**

*Acquisition of NextFloor Group (continued)*

interests' proportionate share in the recognized amounts of the acquiree's identifiable net assets at the acquisition date.

Goodwill of 3,154 million yen represented the value of expected synergies arising from the acquisition and was allocated entirely to the LINE business and portal segment. Subsequently, in line with the change in the CGU for the year ended December 31, 2018, the goodwill was mainly allocated to the Core Business segment. None of the goodwill recognized is expected to be deductible for income tax purposes.

From the date of acquisition, NextFloor Group had contributed 1,058 million yen to the revenue of the Group and had reduced profit from continuing operations of the Group by 947 million yen.

Transaction costs of 18 million yen have been expensed and are included in "Other operating expenses" in the Group's Condensed Consolidated Statement of Profit or Loss.

(In millions of yen)

**Analysis of cash flows on acquisition:**

Total consideration related to the acquisition . . . . .	(5,927)
Debt equity swap . . . . .	1,976
Net cash and cash equivalents acquired at the acquisition date . . . . .	<u>1,946</u>

**Net cash flows on acquisition (included in cash flows from investing activities) . . . . .**

(2,005)

*Acquisition of FIVE Inc.*

On December 15, 2017, the Group acquired 100.0% of the voting shares of FIVE Inc. ("FIVE"), an unlisted company based in Japan, and FIVE became a consolidated subsidiary of the Group. FIVE is specialized in developing, selling and operating a video advertising platform for smartphones. The Group acquired FIVE for the purpose of utilizing FIVE's technological capability and resources for video advertisement and enhancing the Group's video advertising for LINE services such as "LINE Ads Platform". The valuation of the fair values of the assets acquired and the liabilities assumed was completed in the fourth quarter of 2017.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**29. Business Combinations (continued)**

**Acquisition in 2017 (continued)**

*Acquisition of FIVE Inc. (continued)*

**Assets acquired and liabilities assumed**

The identifiable assets and liabilities of FIVE, which are measured at fair value as of the date of acquisition except for limited exceptions in accordance with IFRS, were as follows:

	<i>(In millions of yen)</i>
	<b>Fair value recognized on acquisition</b>
<b>Assets</b>	
Cash and cash equivalents . . . . .	231
Trade and other receivables, current . . . . .	307
Other financial assets, non-current . . . . .	10
Property and equipment . . . . .	9
Technology . . . . .	391
Other assets . . . . .	7
	<u>955</u>
<b>Liabilities</b>	
Trade and other payables . . . . .	288
Other financial liabilities, current . . . . .	50
Deferred tax liabilities . . . . .	123
Other liabilities . . . . .	44
	<u>505</u>
<b>Total identifiable net assets at fair value . . . . .</b>	<b>450</b>
Goodwill . . . . .	4,996
<b>Total consideration . . . . .</b>	<b><u>5,446</u></b>

All consideration was paid in cash. The fair value of the trade receivables was 306 million yen. The gross contractual amounts of the trade receivables were not materially different from the fair value determined as part of the purchase price allocation.

Goodwill of 4,996 million yen represented the value of expected synergies arising from the acquisition and was allocated entirely to the LINE business and portal segment. Subsequently, in line with the change in the CGU for the year ended December 31, 2018, the goodwill was mainly allocated to the Core Business segment. None of the goodwill recognized is expected to be deductible for income tax purposes.

From the date of acquisition, FIVE had contributed 68 million yen to the revenue of the Group and had reduced profit from continuing operations of the Group by 4 million yen.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**29. Business Combinations (continued)**

**Acquisition in 2017 (continued)**

*Acquisition of FIVE Inc. (continued)*

Transaction costs of 11 million yen have been expensed and are included in “Other operating expenses” in the Group’s Consolidated Statements of Profit or Loss.

(In millions of yen)

<b>Analysis of cash flows on acquisition:</b>	
Total consideration related to the acquisition . . . .	(5,446)
Net cash and cash equivalents acquired at the acquisition date . . . . .	<u>231</u>
<b>Net cash flows on acquisition (included in cash flows from investing activities) . . . . .</b>	<b><u>(5,215)</u></b>

If the business combinations of NextFloor Group and FIVE had taken place on January 1, 2017, revenue for the Group would have been 168,915 million yen (unaudited) and the profit from continuing operations for the Group would have been 6,701 million yen (unaudited) for the year ended December 31, 2017.

Other business combinations

There were no other significant business combinations for the year ended December 31, 2017.

**Acquisition in 2018**

There were no other significant business combinations individually or in aggregate during the year ended December 31, 2018.

**30. Principal Subsidiaries**

**Information on subsidiaries**

(1) The Group has 62 consolidated subsidiaries. The significant subsidiaries of the Group include the following subsidiaries:

<u>Name</u>	<u>Primary business activities</u>	<u>Country of incorporation</u>	<u>Percentage of ownership</u>	
			<u>December 31, 2017</u>	<u>December 31, 2018</u>
LINE Fukuoka Corp. . . . .	Management support	Japan	100.0%	100.0%
LINE Pay Corporation . . . . .	Software Development and mobile payment service	Japan	100.0%	100.0%
LINE GAME Global Gateway, L.P. <sup>(1)</sup> . . . . .	Investment	Japan	100.0%	100.0%
LINE Mobile Corporation <sup>(2)</sup> . . . . .	Mobile virtual network operator	Japan	100.0%	49.0%
M.T.Burn Inc. . . . .	Advertising platform service	Japan	50.5%	50.5%
Gatebox Inc. . . . .	IoT hologram technology development	Japan	51.0%	51.0%

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**30. Principal Subsidiaries (continued)**

**Information on subsidiaries (continued)**

Name	Primary business activities	Country of incorporation	Percentage of ownership	
			December 31, 2017	December 31, 2018
STAIRS Corporation <sup>(6)</sup>	Game Development	Japan	100.0%	49.5%
FIVE Inc.	Game Development	Japan	100.0%	100.0%
LINE Financial Corporation <sup>(3)</sup>	Financial related service	Japan	—	100.0%
LVC Corporation	Financial related service	Japan	—	100.0%
LINE Part-Time Job, Ltd. <sup>(4)</sup>	Job posting service	Japan	49.0%	60.0%
LINE Ventures Global Limited				
Liability Partnership	Investment	Japan	—	100.0%
LINE Ventures Japan Limited				
Liability Partnership	Investment	Japan	—	100.0%
LINE Digital Frontier				
Corporation <sup>(5)</sup>	Software development	Japan	—	70.0%
LINE Plus Corporation	Global marketing	Korea	100.0%	100.0%
LINE C&I Corporation	Investment	Korea	100.0%	100.0%
LINE Biz Plus Corporation	Mobile payment service	Korea	100.0%	100.0%
LINE Friends Corporation	Character goods business	Korea	100.0%	100.0%
LINE Games Corporation <sup>(6)</sup>	Game Development and Publishing	Korea	51.0%	49.5%
NemusTech Co., Ltd. <sup>(7)</sup>	Software development	Korea	88.5%	94.2%
Unblock Corporation <sup>(8)</sup>	Software development	Korea	53.6%	100.0%
LINE Taiwan Limited	Mobile Service	Taiwan	100.0%	100.0%
Line Biz+ Taiwan Limited	Payment Service	Taiwan	100.0%	70.0%
LFG HOLDINGS LIMITED	Character goods business	Hong Kong (China)	100.0%	100.0%
LINE Financial Asia Corporation				
Limited <sup>(9)</sup>	Financial related service	Hong Kong (China)	—	100.0%
LINE Company (Thailand)				
Limited <sup>(10)</sup>	e-commerce	Thailand	50.0%	50.0%
LINE SOUTHEAST ASIA				
CORP.PTE.LTD. <sup>(11)</sup>	Software development and mobile payment service	Singapore	100.0%	100.0%
LINE VIETNAM JOINT STOCK				
COMPANY <sup>(12)</sup>	Portal site operation	Vietnam	72.6%	98.8%

(1) LINE GAME Global Gateway L.P. is in the process of liquidation and it is scheduled to be completed as of March 31, 2019.

(2) The third-party allotment to SoftBank Corp. by LINE Mobile Corporation was executed in April, 2018. As a result, the share of the Group decreased from 100.0% to 49.0%, resulting in LINE Mobile Corporation to be accounted for as an associate under the equity method. The Group recorded gain on loss of control of subsidiaries in the amount of 9,494 million yen in Other operating income for the year ended December 31, 2018, as a result of re-measurement of the Group's investment in the LINE Mobile Corporation, based on the fair value as of the day when the Group lost the control over this subsidiary.

(3) As a result of capital injection executed in April 2018, LINE Financial Corporation became a specified subsidiary as its amount of share capital was equivalent to 10% of the Group's capital amount.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**30. Principal Subsidiaries (continued)**

**Information on subsidiaries (continued)**

- (4) The Group acquired additional shares of LINE Part-Time Job, Ltd. (renamed from AUBE in June 2018) in April 2018 and obtained 60.0% of ownership interest in this subsidiary.
- (5) The Company established LINE Digital Frontier Corporation and transferred its LINE Manga business and LINE Comics business to LINE Digital Frontier Corporation in July 2018. Subsequently, the third-party allotment to NAVER WEBTOON Corporation by LINE Digital Frontier Corporation was executed in August 2018. As a result, the share of the Group decreased from 100.0% to 70.0%.
- (6) NextFloor Corporation conducted an absorption-type merger with LINE Games Corporation and NextFloor Basement Labo Corporation on August 2018, and was renamed as LINE Games Corporation. As a result of this merger, the Group's ownership interest net of treasury shares in LINE Games Corporation is 73.5%. In November 2018, LINE Games Corporation issued its new shares through a third-party allotment to Lungo Entertainment Ltd. resulting in a decrease in ownership interest net of treasury shares from 73.5% to 49.5% and due to this event, LINE Games Corporation Group including STAIRS Corporation to be accounted for as an associate under the equity method. For the year ended December 31, 2018, the Group recorded a gain on loss of control of subsidiaries in the amount of 15,300 million yen in Other operating income as a result of re-measurement of the fair value of the Group's investment in LINE Games Corporation Group, measured based on the date the Group lost the control over this subsidiary.
- (7) LINE Plus Corporation exercised its right to purchase shares of NemusTech, Co., Ltd. in November 2018, resulting in an increase of the Group's ownership in NemusTech, Co., Ltd. from 88.5% to 94.2%.
- (8) As a result of capital injection executed in May 2018, the Group's ownership in Unblock Corporation increased from 53.6% to 100.0%.
- (9) As a result of the capital injection executed in October, 2010, LINE Asia Corporation Limited became a specified subsidiary as its amount of share capital is equivalent to 10% of the Group's capital amount.
- (10) The Group's ownership in LINE Company (Thailand) Limited is 50.0%, but it holds 90.9% of the voting rights. Accordingly, LINE Company (Thailand) Limited is included in the scope of consolidation for the Group's consolidated financial statements
- (11) LINE BIZ+ PTE.LTD was renamed as LINE SOUTHEAST ASIA CORP.PTE.LTD. on January 1, 2018.
- (12) LINE SOUTHEAST ASIA CORP.PTE.LTD acquired additional shares of LINE VIETNAM JOINT STOCK COMPANY (renamed from Tre Tho Information Service Joint Stock Company in August 2018) from a third party, resulting in an increase of the Group's ownership in LINE VIETNAM JOINT STOCK COMPANY from 72.6% to 98.8% in June 2018.
- (2) The summarized financial information for the subsidiaries which the Group recognize non-controlling interest are as follows: The amount disclosed for each subsidiary are before inter-company eliminations.

(In millions of yen)

	<b>M.T.Burn Inc.</b>	
	<b>December 31, 2017</b>	<b>December 31, 2018</b>
Current assets	2,217	3,866
Non-current assets	231	174
Current liabilities	336	538
Non-current liabilities	64	42
Equity	2,048	3,460
Accumulated non-controlling interest	<u>1,012</u>	<u>1,715</u>
Proportionate share of non-controlling interest	<u>49.5%</u>	<u>49.5%</u>

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**30. Principal Subsidiaries (continued)**

**Information on subsidiaries (continued)**

- (2) The summarized financial information for the subsidiaries which the Group recognize non-controlling interest are as follows: The amount disclosed for each subsidiary are before inter-company eliminations. (continued)

(In millions of yen)

	<b>M.T.Burn Inc.</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
Revenue . . . . .	2,236	3,921	3,186
Net profit for the year . . . . .	513	1,338	1,416
Other comprehensive income . . . . .	—	—	—
Total comprehensive income for the year . . . . .	<u>513</u>	<u>1,338</u>	<u>1,416</u>
Profit attributable to non-controlling interest . . . . .	<u>259</u>	<u>661</u>	<u>703</u>
Dividend paid to non-controlling interest . . . . .	<u>—</u>	<u>—</u>	<u>—</u>

(In millions of yen)

	<b>M.T.Burn Inc.</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
Cash flows from operating activities . . . . .	666	1,224	1,989
Cash flows from investing activities . . . . .	1	—	—
Cash flows from financing activities . . . . .	<u>10</u>	<u>(258)</u>	<u>—</u>
Net increase in cash and cash equivalent . . . . .	<u>677</u>	<u>966</u>	<u>1,989</u>

(In millions of yen)

	<b>Gatebox Inc.</b>	
	<b>December 31, 2017</b>	<b>December 31, 2018</b>
Current assets . . . . .	184	1,259
Non-current assets . . . . .	473	353
Current liabilities . . . . .	139	100
Non-current liabilities . . . . .	134	2,046
Equity . . . . .	384	(534)
Accumulated no-controlling interest . . . . .	<u>188</u>	<u>(261)</u>
Proportionate share of non-controlling interest . . . . .	<u>49.0%</u>	<u>49.0%</u>

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**30. Principal Subsidiaries (continued)**

**Information on subsidiaries (continued)**

- (2) The summarized financial information for the subsidiaries which the Group recognize non-controlling interest are as follows: The amount disclosed for each subsidiary are before inter-company eliminations. (continued)

(In millions of yen)

	<b>Gatebox Inc.</b>	
	<b>2017</b>	<b>2018</b>
Revenue . . . . .	0	95
Net loss for the year . . . . .	(541)	(917)
Other comprehensive income . . . . .	—	—
Total comprehensive income for the year . . . . .	<u>(541)</u>	<u>(917)</u>
Loss attributable to non-controlling interest . . . . .	<u>(192)</u>	<u>(449)</u>
Dividend paid to non-controlling interest . . . . .	<u>—</u>	<u>—</u>

(In millions of yen)

	<b>Gatebox Inc.</b>	
	<b>2017</b>	<b>2018</b>
Cash flows from operating activities . . . . .	(397)	(963)
Cash flows from investing activities . . . . .	(79)	(10)
Cash flows from financing activities . . . . .	(1)	1,934
Net (decrease)/increase in cash and cash equivalent . . . . .	<u>(477)</u>	<u>961</u>

(In millions of yen)

	<b>LINE Company (Thailand) Limited</b>	
	<b>December 31, 2017</b>	<b>December 31, 2018</b>
Current assets . . . . .	4,465	5,221
Non-current assets . . . . .	2,178	2,583
Current liabilities . . . . .	6,055	7,313
Non-current liabilities . . . . .	602	2,049
Equity . . . . .	(14)	(1,558)
Accumulated non-controlling interest . . . . .	<u>47</u>	<u>1,023</u>
Proportionate share of non-controlling interest <sup>(1)</sup> . . . . .	<u>50.0%</u>	<u>50.0%</u>



LINE Corporation

Notes to Consolidated Financial Statements (continued)

**30. Principal Subsidiaries (continued)**

**Information on subsidiaries (continued)**

(2) The summarized financial information for the subsidiaries which the Group recognize non-controlling interest are as follows: The amount disclosed for each subsidiary are before inter-company eliminations. (continued)

<sup>(1)</sup> The non-controlling interest in LINE Company (Thailand) Limited is 50.0%, but it holds 9.1% of the voting rights.

(In millions of yen)

	LINE Company (Thailand) Limited		
	2016	2017	2018
Revenue . . . . .	432	2,760	8,200
Net profit/(loss) for the year . . . . .	164	357	(1,396)
Other comprehensive income . . . . .	(20)	(60)	22
Total comprehensive income for the year . . . . .	144	297	(1,374)
Profit/(loss) attributable to non-controlling interest . . . . .	62	198	(816)
Dividend paid to non-controlling interest . . . . .	—	—	—

(In millions of yen)

	LINE Company (Thailand) Limited		
	2016	2017	2018
Cash flows from operating activities . . . . .	(586)	1,842	1,712
Cash flows from investing activities . . . . .	(53)	(430)	(1,709)
Cash flows from financing activities . . . . .	355	—	—
Net increase in cash and cash equivalent . . . . .	(284)	1,412	3

**(3) Ultimate parent company of the Group**

The next senior and the ultimate parent company of the Group is NAVER, which is domiciled in Korea and listed on the Korean Stock Exchange.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**31. Investments in Associates and Joint Ventures**

(1) Details of investments in the Group's significant associates and joint ventures are as follows:

*(In millions of yen)*

	Primary business activities	Country of incorporation	December 31, 2017		December 31, 2018	
			Percentage of ownership	Carrying amount	Percentage of ownership	Carrying amount
<b>Associates</b>						
LINE Games Corporation <sup>(1)</sup>	Game development and publishing	Korea	—	—	49.5%	18,438
Snow Corporation <sup>(2)</sup>	Mobile app	Korea	45.0%	12,998	34.0%	9,346
LINE Mobile Corporation <sup>(3)</sup>	Mobile virtual network operator	Japan	—	—	49.0%	5,637
FOLIO Co., Ltd. <sup>(4)</sup>	Online trading service	Japan	—	—	41.4%	5,126
Yume no Machi Souzou Inikai Co., Ltd.	Delivery portal site	Japan	22.0%	3,865	21.9%	3,838
K-Fund I	Investment	France	25.0%	1,388	25.0%	2,670
Venture Republic Inc. <sup>(5)</sup>	Travel service	Japan	—	—	34.0%	1,620
LINE MUSIC Corporation <sup>(6)</sup>	Music distribution	Japan	33.4%	47	36.7%	505
<b>Joint ventures</b>						
Drama & Company Co., Ltd. <sup>(7)</sup>	Software Development	Korea	37.2%	2,216	40.7%	2,574
<b>RABBIT-LINE PAY COMPANY LIMITED<sup>(8)</sup></b>						
	Payment service	Thailand	50.0%	2,121	33.3%	1,856
Lantu Games Limited	Mobile games	Hong Kong (China)	50.0%	394	50.0%	199

(1) In August 2018, NextFloor Corporation, a subsidiary of the Group, conducted an absorption-type merger with LINE Games Corporation and NextFloor Basement Labo Corporation and was renamed as LINE Games Corporation. As a result of this merger, the Group's ownership interest net of treasury shares in LINE Games Corporation is 73.5%. In November 2018, LINE Games Corporation, a subsidiary of the Group, issued its new shares through a third party allotment. As a result, the Group's ownership interest in LINE Games Corporation decreased from 73.5% to 49.5%. As the Group has significant influence, but not control over LINE Games Corporation, the investment is accounted for under the equity method.

(2) In March and October 2018, Snow Corporation, an associate of the Group, issued new shares through a third-party allotment. As a result, the Group's ownership interest in SNOW Corporation decreased from 45.0% to 34.0%. As the Group has significant influence, but not control over Snow Corporation, the investment is accounted for under the equity method.

(3) In April 2018, LINE Mobile Corporation, a subsidiary of the Group, issued its new shares through a third-party allotment. As a result, the Group's ownership interest in LINE Mobile Corporation decreased from 100.0% to 49.0%. As the Group has significant influence, but not control over LINE Mobile Corporation, the investment is accounted for under the equity method.

(4) In January 2018, the Group acquired 41.4% interest in FOLIO Co., Ltd. for the purpose of jointly conducting online trading service that FOLIO Co., Ltd., operates and R&D. Whilst the Group had 41.4% interest, the Group holds 26.1% of voting rights. As the Group has significant influence, but not control over FOLIO Co., Ltd., the investment is accounted for under the equity method.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**31. Investments in Associates and Joint Ventures (continued)**

- (1) Details of investments in the Group's significant associates and joint ventures are as follows (continued):
- (5) In August 2018, the Group acquired 34.0% interest in Venture Republic Inc. to form a business alliance in travel service sector. As the Group has significant influence, but not control over Venture Republic Inc., the investment is accounted for under equity method.
- (6) In May 2018, the Group acquired additional interest in LINE Music Corporation, an associate of the Group. As a result, the Group's ownership interest in LINE Music Corporation increased from 33.4% to 36.7%. As the Group has significant influence, but not control over LINE MUSIC Corporation, the investment is accounted for under the equity method.
- (7) In October 2018, the Group acquired additional interest in Drama & Company Co., Ltd. Moreover, as determined in the shareholders' agreement, the Group, jointly with NAVER, acquired additional shares of Drama & Company Co., Ltd. which were issued through exercise of stock options. As a result, the Group's ownership interest in Drama & Company Co., Ltd. increased from 37.2% to 40.7%. As the Group determined that Drama & Company Co., Ltd. is still a joint venture, the investment is accounted for under equity method.
- (8) In March 2018, RABBIT-LINE PAY COMPANY LIMITED, a joint venture of the Group, issued its new shares through a third party allotment. As a result, the Group's ownership interest in RABBIT-LINE PAY COMPANY LIMITED decreased from 50.0% to 33.3%. Based on the shareholders' agreement, the Group determined that RABBIT-LINE PAY COMPANY LIMITED is still a joint venture, and the investment is accounted for under the equity method.
- (2) Financial information on the Group's investment in the associates is summarized as follows:

(In millions of yen)

	<b>Snow Corporation</b>		
	<b>December 31, 2017</b>	<b>December 31, 2018</b>	
Current assets . . . . .	2,469	11,168	
Non-current assets . . . . .	17,213	15,119	
Current liabilities . . . . .	1,180	9,080	
Non-current liabilities . . . . .	2,678	2,482	
Equity . . . . .	15,824	14,725	
Proportion of the Group's ownership . . . . .	45.0%	34.0%	
Group's share of equity . . . . .	<u>7,121</u>	<u>5,007</u>	
Goodwill and other adjustments . . . . .	<u>5,877</u>	<u>4,339</u>	
Carrying amount of the interests . . . . .	<u>12,998</u>	<u>9,346</u>	
	<b>Snow Corporation</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
Revenue . . . . .	—	271	1,320
Loss for the year from continuing operations . . . . .	(952)	(10,348)	(10,627)
Other comprehensive income/(loss) for the year, net of tax . . . . .	—	131	(358)
Total comprehensive loss for the year, net of tax . . . . .	<u>(952)</u>	<u>(10,217)</u>	<u>(10,985)</u>
Group's share of loss for the year . . . . .	<u>(238)</u>	<u>(4,531)</u>	<u>(4,971)</u>

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**31. Investments in Associates and Joint Ventures (continued)**

(2) Financial information on the Group's investment in the associates is summarized as follows (continued):

(In millions of yen)

	<u>LINE Mobile Corporation</u> <u>December 31, 2018</u>
Current assets . . . . .	8,451
Non-current assets . . . . .	818
Current liabilities . . . . .	4,951
Non-current liabilities . . . . .	232
Equity . . . . .	<u>4,086</u>
Proportion of the Group's ownership . . . . .	49.0%
Group's share of equity . . . . .	2,002
Goodwill and other adjustments . . . . .	<u>3,635</u>
Carrying amount of the interests . . . . .	<u>5,637</u>
	<u>LINE Mobile Corporation</u> <u>2018</u>
Revenue . . . . .	6,545
Loss for the year from continuing operations . . . . .	(5,490)
Other comprehensive income for the year, net of tax . . . . .	—
Total comprehensive loss for the year, net of tax . . . . .	<u>(5,490)</u>
Group's share of loss for the year . . . . .	<u>(2,690)</u>

(3) The aggregate amount of individually immaterial associates accounted for by the equity-method accounted investee is summarized as follows:

(In millions of yen)

	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2018</u>	
Carrying amount of the interests . . . . .	<u>7,115</u>	<u>33,788</u>	
	<u>2016</u>	<u>2017</u>	<u>2018</u>
Loss for the year from continuing operations . . . . .	(1,642)	(3,050)	(5,416)
Other comprehensive income for the year, net of tax . . . . .	2	84	191
Total comprehensive loss for the year, net of tax . . . . .	<u>(1,640)</u>	<u>(2,966)</u>	<u>(5,225)</u>

The Group had no contingent liabilities relating to its associates as of December 31, 2016, 2017 and 2018.

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**31. Investments in Associates and Joint Ventures (continued)**

- (4) The aggregate amount of individually immaterial joint ventures accounted for by the equity-method accounted investee is summarized as follows:

	<i>(In millions of yen)</i>		
	<u>December 31, 2017</u>	<u>December 31, 2018</u>	
Carrying amount of the interests . . . . .	<u>4,731</u>	<u>5,150</u>	
	<u>2016</u>	<u>2017</u>	<u>2018</u>
Loss for the year from continuing operations . . . . .	(417)	(2,211)	(3,708)
Other comprehensive income for the year, net of tax . . . . .	—	81	(35)
Total comprehensive loss for the year, net of tax . . . . .	<u>(417)</u>	<u>(2,130)</u>	<u>(3,743)</u>

The joint ventures had no contingent liabilities as at December 31, 2017 and 2018, respectively. The Group had outstanding payment for capital commitments of nil relating to the joint ventures as at December 31, 2017. The Group had outstanding payment for capital commitments of 4,786 million yen relating to the joint ventures as at December 31, 2018. The Group's joint ventures cannot distribute its profits without the unanimous consent from the parties of the joint arrangement.

**32. Subsequent Events**

Issuance of stock warrant (Stock option) to directors (excluding the outside directors) of the Company

At the annual general meeting of shareholders held on March 28, 2019, and in compliance with Article 236, 238 and 239 of the Companies Act of Japan, the Company resolved to issue stock options (warrants) to directors of the Company (excluding the outside directors) and to delegate the board of directors to determine the subscription requirements. The details of the stock options are as follows:

Candidates and numbers of candidates	Four of the Company's directors, excluding outside directors.
Class of share to be issued upon exercise of stock options	Common shares
Total number of shares	A maximum of 3,024,000 shares will be issued. If it is appropriate to adjust the number of allotted shares subject to stock acquisition rights because of a transaction such as a share split or share consolidation, the Company will adjust the number of allotted shares as necessary to reasonable extent.
Amount of payments upon exercise of stock options	The exercise price will be obtained by multiplying 1.05 by the average closing price in ordinary trading of the Company's common shares on the Tokyo Stock Exchange for each day (excluding any day on which no trade is executed) of the month preceding the month in which the day that the stock options were allotted, and any fraction less than one yen arising from such calculation will be rounded up. However, when the exercise price calculated using this method is lower than the closing price (or closing price immediately preceding trading day when there is no closing price) of the shares of the Company's common share on the allotment

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**31. Investments in Associates and Joint Ventures (continued)**

**32. Subsequent Events (continued)**

Issuance of stock warrant (Stock option) to directors of the Company (continued)

date, the exercise price will be the closing price on the allotment date of the stock option. If it is appropriate to adjust the exercise price because of a transaction such as a merger, an issuance of shares for subscription, a share split or share consolidation, the Company will adjust the exercise price as necessary to reasonable extent.

Exercise period for stock options      The exercise period for stock options will be from the day exactly three years following the vested date until the day exactly ten years after the vested date.

Conditions for exercise of stock options      The recipients of warrants must be in a position of director of the Company or its subsidiaries or associates at the time of exercising the stock options. However, this condition does not apply in cases of retirement of a director of the Company or its subsidiaries or associates due to the expiration of his or her term of office, or other cases acknowledged to have a valid reason by the Company's board of directors. If the recipient meets a certain condition prescribed in the Company's compensation policy, stock options may be exercised with a limitation on the number of stock options which can be exercised.

Matters relating to transfer on acquisition of stock options      Transfer of stock options will be subject to approval by resolution of the Company's board of directors.

Matters relating to substitute payment      —

Matters relating to granting of stock options in association with organizational restructuring      —

Other matters concerning stock options shall be determined at the meeting of the Company's board of directors, which will be held after the general meeting of shareholders at March 28, 2019.

Issuance of stock warrant (Stock option) to outside directors of the Company

At the annual general meeting of shareholders held on March 28, 2019, and in compliance with Article 236, 238 and 239 of the Companies Act of Japan, the Company resolved to issue stock options (warrants) to outside directors of the Company to determine the subscription requirements. The details of the stock options are as follows:

Candidates and numbers of candidates      Three of the Company's outside directors.

Class of share to be issued upon exercise of stock options      Common shares

LINE Corporation

Notes to Consolidated Financial Statements (continued)

**31. Investments in Associates and Joint Ventures (continued)**

**32. Subsequent Events (continued)**

Issuance of stock warrant (Stock option) to directors of the Company (continued)

Total number of shares	A maximum of 24,000 shares will be issued. If it is appropriate to adjust the number of allotted shares subject to stock acquisition rights because of a transaction such as a share split or share consolidation, the Company will adjust the number of allotted shares as necessary to reasonable extent.
Amount of payments upon exercise of stock options	The exercise price will be obtained by multiplying 1.05 by the average closing price in ordinary trading of the Company's common shares on the Tokyo Stock Exchange for each day (excluding any day on which no trade is executed) of the month preceding the month in which the day that the stock options were allotted, and any fraction less than one yen arising from such calculation will be rounded up. However, when the exercise price calculated using this method is lower than the closing price (or closing price immediately preceding trading day when there is no closing price) of the shares of the Company's common share on the allotment date, the exercise price will be the closing price on the allotment date of the stock option. If it is appropriate to adjust the exercise price because of a transaction such as a merger, an issuance of shares for subscription, a share split or share consolidation, the Company will adjust the exercise price as necessary to reasonable extent.
Exercise period for stock options	The exercise period for stock options will be from the day exactly three years following the vested date until the day exactly ten years after the vested date.
Conditions for exercise of stock options	The recipients of warrants must be in a position of director of the Company or its subsidiaries or associates at the time of exercising the stock options. However, this condition does not apply in cases of retirement of a director of the Company or its subsidiaries or associates due to the expiration of his or her term of office, or other cases acknowledged to have a valid reason by the Company's board of directors.
Matters relating to transfer on acquisition of stock options	Transfer of stock options will be subject to approval by resolution of the Company's board of directors.
Matters relating to substitute payment	—
Matters relating to granting of stock options in association with organizational restructuring	—

Other matters concerning stock options shall be determined at the meeting of the Company's board of directors, which will be held after the general meeting of shareholders at March 28, 2019.

**Exhibit 1.1**

Revised March 28, 2019

**Articles of  
Incorporation**



# LINE Corporation Articles of Incorporation

## Chapter 1. General Rules

(Trade Name)

Article 1. The name of the Company shall be LINE KABUSHIKI KAISHA, and it shall be written in English as LINE Corporation.

(Purpose)

Article 2. The purpose of the company shall be to engage in the following business activities.

- (1) Planning, design, development, operation, provision, and rental of software that utilizes telecommunication networks and electronic technologies
- (2) All types of information collection, processing and provision services that utilize telecommunication networks and electronic technologies
- (3) Electronic communication business, Internet phone-calling and other telecommunication-related services
- (4) Establishment of an Internet-based shopping mall
- (5) Online shopping operations
- (6) Planning, development, design, sales, rental, operation and the subcontracting thereof for e-commerce and e-payment services
- (7) Planning, drafting, production and management of homepage or internet-based content
- (8) Installation, retention, management, rental and leasing of communication devices, computers and other related equipment
- (9) Planning, development and sales of computer systems and software
- (10) Export, import, planning, development, and sales of game devices and software
- (11) Design, retention, operation and management operations related to all types of information distribution systems that utilize electronic technologies
- (12) Planning, development, production, sales, rental, retention, management operations and installation support for hardware and software related to telecommunication systems
- (13) Design, manufacturing, sales, retention, management and intermediary of sales of telecommunication devices, information communication devices and other mobile devices, peripheral devices and computer network systems
- (14) Design, development, and sales of computer hardware
- (15) Provision of internet connection services
- (16) Production, promotion and distribution of movies

- (17) Planning, production, sales and rental of products with recorded music and film
- (18) Planning, development, manufacturing, production, sales, rental, retention, management, operation and brokering thereof for character-licensed products, game devices, toys, other play-related products, mobile content and software
- (19) Sales of snack foods and drinks, alcoholic beverages, clothing, electronic appliances, toys, stationery, cosmetics, watches, jewelry and daily sundries
- (20) Event planning and operation
- (21) Operation of restaurants, cafes and internet cafes
- (22) Publishing business
- (23) Planning, production, and selling of advertising and ad agency services, and agency services for receiving applications and customer management in relation to sales promoting activities
- (24) Various marketing and research business
- (25) Call center operations (outsourced landline calling and reception)
- (26) Sales of used products
- (27) Operation of cram schools
- (28) Worker dispatch services, employment placement services, and research, counseling and training for vocational aptitude and capacity development
- (29) Money lending, brokering and underwriting of loans, credit card handling, financial instruments business, bank agency services, electronic payment agency services, financial instruments intermediary services, and other financial services
- (30) Issuance, sales, management, operation of e-payment systems for e-money, other e-currencies, and other means of pre-payment and fund transfer operations
- (31) Investment in relation to various businesses, including the following (a) and (b), and the businesses related to company mergers, business alliances, and acquisition, transfer, mediation and conciliation of businesses, securities, and monetary claims
  - (a) Investment and management of assets of investment limited partnership or any other investment partnership, or investment to investment limited partnership or any other investment partnership
  - (b) Mediation, intermediation, and agency of concluding investment limited partnership contract, ,silent partnership contract, and other investment partnership contract.
- (32) Operations related to damage insurance agency and life insurance solicitation
- (33) Advertisement of small sum short-period insurance, and agency and mediation of contract conclusion in relation to small sum short-period insurance
- (34) Virtual currency exchange business

- (35) Travel agency based on Travel Agency Act, travel agent's representation, and arrangement of travel services
- (36) Management and rental operations for real estate
- (37) Following operations commissioned by other companies or organizations
  - (a) Planning, collection, creation, publishing and management of documents related to management analysis, business planning, statistics management and public relations
  - (b) Administer affairs related to bookkeeping, recording of revenues and expenditures, and settling of accounts
  - (c) Human resource, labor, benefit programs, education and training services for employees
  - (d) Information system utilizing networks of internet and entrustment of planning, designing, and operating of telecommunication network
- (38) Management consulting for company management and subcontracting of management
- (39) Acquisition, sales, usage licenses and other management operations for copyrights, design rights, trademark rights and industrial property rights
- (40) Consulting, export and import operations, and resale operations related to any of the foregoing
- (41) All businesses incidental to any of the foregoing

(Location of Head Office)

Article 3. The Company shall have its head office in Shinjuku-ku, Tokyo.

(Organs)

Article 4. In addition to a general meeting of shareholders and a Board of Directors, the Company shall have the following organs.

- (1) Board of Directors
- (2) Auditors
- (3) Board of Auditors
- (4) Accounting Auditors

(Method for Public Notices)

Article 5. The method of public notices of the Company shall be electronic public notices. However, if the Company is unable to issue an electronic public notice due to an accident or for any other unavoidable reason, public notices of the Company shall be issued in Nihon Keizai Shimbun.

## Chapter 2. Shares

(Total Number of Issuable Shares)

Article 6. The total number of shares issuable by the Company shall be 690,000,000.

(Acquisition of Own Shares)

Article 7. Upon resolution by the Board of Directors, the Company shall be able to acquire its own shares via Market Transactions, in accordance with Article 165 Paragraph 2 of the Companies Act.

(Number of Shares Constituting One Unit of Share)

Article 8. The Number of shares constituting one unit of share shall be one hundred (100) shares.

(Rights with Respect to Shares Constituting Less Than One Unit)

Article 9. A shareholder may not exercise rights with respect to shares constituting less than one unit other than:

- (1) Rights specified in each item of Article 189 Paragraph 2 of the Companies Act;
- (2) Rights to demand acquisition per Article 166 Paragraph 1 of the Companies Act;
- (3) A right to receive an allotment of subscription shares or subscription stock acquisition rights in accordance with the number of shares held by the shareholder; and
- (4) A right to make the demand stipulated in the following article.

(Additional Purchase of Shares Constituting Less Than One Unit)

Article 10. In accordance with the provisions of the Share Handling Regulations, a shareholder holding Company shares constituting less than one unit shall be able to demand that the Company sell the necessary amount of shares which will, when added together with that shareholder's existing shares, constitute one unit of share.

(Share Registrar)

Article 11. The Company shall appoint a share registrar.

2. The share registrar and its business office shall be determined by resolution of the Board of Directors.
3. Any business related to the shareholders register and the ledger of stock acquisition rights of the Company, shall be entrusted to the transfer agent and shall not be handled by the Company.

(Share Handling Regulations)

Article 12. Handling and fees related to shares of the Company shall be according to the Share Handling Regulations established by the Board of Directors.

### Chapter 3. General Meeting of Shareholders

(Convocation)

Article 13. Regular general meetings of shareholders shall be convened within three months of the conclusion of each fiscal year, and extraordinary meetings of shareholders shall be convened when necessary.

(Record Date for Regular General Meeting of Shareholders)

Article 14. The record date for voting rights at a regular general meeting of shareholders shall be December 31 of every year.

(Convocator and Chairperson)

Article 15. Upon resolution by the Board of Directors, the President and CEO shall convene a general meeting of shareholders and act as the chairperson thereof, unless otherwise provided by laws and regulations. If that the President and CEO is unable to serve in this position, another Director, determined in accordance with an order of succession previously determined by resolution of the Board of Directors, shall act in place of the President and CEO.

(Disclosure via the Internet of Reference Documents for the General Meeting of Shareholders and the Deemed Provision of Information)

Article 16. In accordance with the ordinances of the Ministry of Justice, the Company shall be deemed to have provided shareholders with all necessary information stated or indicated in reference documents for the general meeting of shareholders, business reports, non-consolidated financial statements and consolidated financial statements, by disclosing such information via the Internet.

(Method for Adopting Resolutions)

Article 17. Except as otherwise provided by laws and regulations or by these Articles of Incorporation, all resolutions at general meetings of shareholders shall be passed by a majority of the votes of the shareholders in attendance entitled to exercise voting rights.

2. Special Resolutions provided for in Article 309 Paragraph 2 of the Companies Act may only be passed by two-thirds or more of the votes of the shareholders in attendance, who must hold in the aggregate a majority of the voting rights of shareholders entitled to exercise voting rights.

(Exercise of Voting Rights by Proxy)

Article 18. A shareholder may exercise his/her voting rights by authorizing one other shareholder with voting rights of the Company as his/her proxy.

2. The shareholder or his/her proxy in the preceding paragraph shall submit to the Company a document evidencing that authority of representation at each general meeting of shareholders.

#### Chapter 4. Directors and Board of Directors

(Number of Directors)

Article 19. The number of Directors of the Company shall be no less than three and no more than eight.

(Election Method)

Article 20. Resolutions for the election of Directors shall be passed by a majority of the votes of shareholders in attendance, who must hold in the aggregate one-third or more of the total number of voting rights of shareholders entitled to exercise voting rights.

2. Resolutions for the election of Directors shall not be made by cumulative voting.

(Term of Office)

Article 21. The term of office of a Director shall expire upon conclusion of the last regular general meeting of shareholders of the final fiscal year ending within two years after his or her election.

2. The term of office of a Director elected to fill a vacancy or to increase the number of Directors shall be the same as the remaining term of office of the other Directors in office at that time.

(Convocator and Chairperson of Board of Directors)

Article 22. The President and CEO shall convene the meeting of the Board of Directors and act as the chairperson thereof, unless otherwise provided by laws and regulations. If the President and CEO is unable to serve in this position, another Director, determined in accordance with an order of succession previously determined by resolution of the Board of Directors, shall act in place of the President and CEO.

2. Notice of convocation of a meeting of the Board of Directors shall be sent to each Director and Auditor at least three days prior to the meeting. However, in the event of urgency, such period may be shortened.
3. When the consent of all Directors and Auditors is obtained, a meeting of the Board of Directors may be held without following the above procedures for convening a meeting.

(Representative Director)

Article 23. The Board of Directors shall appoint a Representative Director via resolution.

(Executive Directors)

Article 24. The Board of Directors shall appoint by resolution one Chairperson, one President, and may appoint one or more Vice Presidents, Senior Managing Directors, or Executive Directors from among its members.

(Resolutions of the Board of Directors)

Article 25. Resolutions of the Board of Directors shall be adopted by a majority vote of the Directors in attendance, who must constitute in number more than half the total number of Directors.

2. When requirements stipulated in Article 370 of the Companies Act are satisfied, resolutions of the Board of Directors shall be deemed to have been adopted.

(Regulations of the Board of Directors)

Article 26. In addition to laws, regulations and these Articles of Incorporation, matters related to the Board of Directors shall be governed by the Regulations of the Board of Directors established by the Board of Directors.

(Remuneration, Etc.)

Article 27. Remuneration, bonuses and other financial benefits to be received by Directors as consideration for the performance of their duties for the Company (“Remuneration, Etc.”) shall be decided by a resolution of the general meeting of shareholders.

(Exemption of Director Liability)

Article 28. In accordance with the provisions of Article 426 Paragraph 1 of the Companies Act, the Company may, upon resolution by the Board of Directors, exempt Directors (including former Directors) from liabilities for damage compensation stipulated in Article 423 Paragraph 1 of the Companies Act.

2. In accordance with the provisions of Article 427 Paragraph 1 of the Companies Act, the Company may enter into agreements with Directors (excluding Executive Directors, etc.) which limit their liabilities specified by Article 423 Paragraph 1 of the Companies Act. However, the liability limit amount under such agreements shall be the higher of either a predetermined amount of at least 10 million yen or the minimum liability amount provided for by laws and regulations.

## Chapter 5. Auditors and Board of Auditors

### (Number of Auditors)

Article 29. The number of Auditors of the Company shall be no more than five.

### (Election Method)

Article 30. Resolutions for the election of Auditors shall be passed by a majority of the votes of shareholders in attendance, who must hold in the aggregate one-third or more of the total number of voting rights of shareholders entitled to exercise voting rights.

2. In accordance with the provisions of Article 329, Paragraph 3 of the Companies Act, the Company may elect Substitute Auditors at a general meeting of shareholders in order to prepare for any case in which the number of Auditors falls short of the number provided for by laws and regulations.
3. A resolution for the election of a Substitute Auditor described in the previous paragraph shall be effective until the commencement of the regular general meeting of shareholders to be held for the last fiscal year ending within four years after the resolution for the election, unless that term is shortened by a resolution of a general meeting of shareholders.

### (Term of Office)

Article 31. The term of office of an Auditor shall expire upon conclusion of the last regular general meeting of shareholders of the final fiscal year ending within four years after his or her election.

2. The term of office of an Auditor elected to fill a vacancy of an Auditor who retires before the expiration of his or her term shall be the same as the remaining term of office of the retired Auditor whose vacancy he/she has filled. However, in the event that a Substitute Auditor described in the paragraph 2 of the previous Article assumes the office as an Auditor, the term of office of such Auditor shall not exceed the conclusion of the last regular general meeting of shareholders of the final fiscal year ending within four years after his or her election as substitute Auditor.

### (Convocation of the Board of Auditors)

Article 32. Notice of convocation of a meeting of the Board of Auditors shall be sent to each Auditor at least three days prior to the meeting. However, in the event of urgency, such period may be shortened.

2. When the consent of all Auditors is obtained, a meeting of the Board of Directors may be held without following the above procedures for convening a meeting.

### (Full-Time Auditors)

Article 33. The Board of Auditors shall appoint by its resolution one or more Full-time Auditors.

### (Regulations of the Board of Auditors)

Article 34. In addition to laws, regulations and these Articles of Incorporation, matters related to the Board of Auditors shall be governed by the Regulations of the Board of Auditors established by the Board of Auditors.

### (Remuneration, Etc.)

Article 35. Remuneration, Etc. for Auditors shall be decided by a resolution of the general meeting of shareholders.

(Exemption of Auditor Liability)

Article 36. In accordance with the provisions of Article 426 Paragraph 1 of the Companies Act, the Company may, upon resolution by the Board of Directors, exempt Auditors (including former Auditors) from liabilities for damage compensation stipulated in Article 423 Paragraph 1 of the Companies Act.

2. In accordance with the provisions of Article 427 Paragraph 1 of the Companies Act, the Company may enter into agreements with Auditors which limit their liabilities specified by Article 423 Paragraph 1 of the Companies Act. However, the liability limit amount under such agreements shall be the higher of either a predetermined amount of at least 10 million yen or the minimum liability amount provided for by laws and regulations.

Chapter 6. Accounting Auditors

(Election Method)

Article 37. Accounting Auditors shall be appointed at a general meeting of shareholders.

(Term of Office)

Article 38. The term of office of an Accounting Auditor shall expire upon conclusion of the last regular general meeting of shareholders held for the business year ending within 1 year after their election.

2. Unless a resolution to the contrary is adopted by the regular general meeting of shareholders described in the previous paragraph, the Accounting Auditor shall be deemed to have been reappointed.

Chapter 7. Accounts

(Business Year)

Article 39. The business year of the Company shall be one year commencing on January 1 of every year and ending on December 31 of the same year.

(Record Date for Distribution of Dividends from Surplus)

Article 40. The record date for distribution of dividends from surplus shall be December 31 of every year.

(Interim Dividends)

Article 41. The Company shall be able to, by resolution of the Board of Directors, pay interim dividends with June 30 of every year serving as the record date.

(Statute of Limitations on Dividends)

Article 42. In cases where dividends are paid in cash, the Company shall be relieved from the obligation of paying dividends if such dividends remain unreceived for three years after the date payment thereof commenced.

2. No interest shall accrue on unpaid dividends.



## Chapter 8. Special Controlling Shareholders

(Special Controlling Shareholders)

Article 43. Special controlling shareholders stipulated in Article 179 Paragraph 1 of the Companies Act refers to those who hold 98 percent or more of all voting rights granted by shares of the Company, in accordance with the stipulations of the same paragraph.

Revised September 04, 2000  
Revised July 19, 2005  
Revised May 30, 2006  
Revised September 14, 2006  
Revised March 30, 2007  
Revised September 16, 2008  
Revised January 01, 2012  
Revised October 01, 2012  
Revised April 01, 2013  
Revised April 01, 2014  
Revised May 08, 2014  
Revised July 28, 2014  
Revised June 15, 2015  
Revised March 31, 2016  
Revised May 20, 2016  
Revised March 30, 2017  
Revised April 1, 2017  
Revised March 28, 2019

Regulations of the Board of Directors

LINE Corporation

General Rules

Article 1 (Purpose)

1. The purpose of these Regulations shall be, with respect to the Board of Directors of the Company, to ensure proper and smooth operations in accordance with laws and regulations, and the Articles of Incorporation.
2. Except as otherwise provided in laws and regulations or the Articles of Incorporation, matters concerning the Board of Directors of the Company shall be governed by these Regulations.

Article 2 (Composition)

1. The Board of Directors shall be composed of all of the Company's Directors, and a meeting of the Board of Directors shall be effective when a majority of the members are present.
2. Corporate Auditors may be present at a meeting of the Board of Directors and express their opinions.

Article 3 (Types of Meeting of the Board of Directors)

A meeting of the Board of Directors shall, in principle, be held once a month. However, a meeting of the Board of Directors may be held at any time if necessary.

Article 4 (Convener and Chairman)

1. The Representative Director and President shall convene the meetings of the Board of Directors and act as the chairman thereof, unless otherwise provided by laws and regulations. If the Representative Director and President is unable to serve in this position, another Director, determined in accordance with an order of succession previously determined by resolution of the Board of Directors, shall act in place of the Representative Director and President.
2. Each of the Directors and Corporate Auditors may demand convocation of a meeting of the Board of Directors by submitting a document indicating the purpose of the meeting of the Board of Directors to the convener.

Article 5 (Process for Convocation)

1. Notice of a meeting of the Board of Directors (indicating the purpose of the meeting) shall be sent to each Director and Corporate Auditor at least three days prior to the meeting. However, in the event of urgency, such period may be shortened.
2. When the consent of all Directors and Corporate Auditors is obtained, a meeting of the Board of Directors may be held without following the above procedures for convening a meeting.

Article 6 (Matters to be Resolved)

1. The Board of Directors shall resolve matters provided for in Exhibit 1.

## Regulations of the Board of Directors

LINE Corporation

2. Types of resolutions in a meeting of the Board of Directors shall be as set forth under one of the following items.
  - (1) Approval  
To approve the contents of a draft without amendment
  - (2) Approval with amendment  
To approve the contents of a draft after partially amending immaterial matters thereof
  - (3) Supplement  
To direct to supplement material matters contained in a draft, and ensure that the draft is brought back before the Board of Directors to resolve at the following meeting of the Board of Directors
  - (4) Rejection  
To reject the contents of a draft entirely, which prohibits the discussion of the draft again at a meeting of the Board of Directors in the same business year
3. When emergency measures are necessary, the Representative Director and President may execute them without a resolution of a meeting of the Board of Directors, unless to do so would violate laws and regulations or the Articles of Incorporation. In this case, such execution shall be subject to an approval of the Board of Directors at the following meeting of the Board of Directors.

### Article 7 (Matters to be Reported)

1. The Representative Director and President shall report the profit and loss, status of properties and status of execution of other material business at a meeting of the Board of Directors.
2. The chairman and the Representative Director and President may appoint another Director to give the report provided for in the preceding paragraph.
3. Directors who have been engaged in competitive transactions and transactions with the Company shall report to the Board of Directors on the material facts of such transaction.
4. In cases where Directors have notified all of the Directors and Corporate Auditors of the matters to be reported at a meeting of the Board of Directors, the report provided for in Paragraphs 1 and 3 shall be unnecessary.

### Article 8 (Matters to be Discussed)

If matters scheduled to be discussed in the following meeting or the meeting thereafter are required to be discussed in advance, the matters may be brought before the Board of Directors to discuss without a resolution.

### Article 9 (Omission of a Resolution of the Board of Directors)

When requirements stipulated in Article 370 of the Companies Act (Law No. 45 of 2017) are satisfied, resolutions of the Board of Directors shall be deemed to have been adopted.

## Regulations of the Board of Directors

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### Article 10 (Manifestation of Intention in Writing)

1. A Director or Corporate Auditor who cannot be present at a meeting of the Board of Directors due to unavoidable reasons may manifest his/her intention concerning an agenda and a matter to the person who will be the chairman in writing in advance.
2. When the manifestation of intention described in the preceding paragraph occurs, the chairman shall report such fact and its contents in discussion at a meeting of the Board of Directors.

### Article 11 (Opinion of the Corporate Auditors)

Corporate Auditors may, if necessary, state their opinions concerning matters outside of the matters that are on an agenda of a meeting of the Board of Directors.

### Article 12 (Attendance of Persons other than Directors and Corporate Auditors)

If the Board of Directors finds it necessary, it may order persons other than Directors and Corporate Auditors to attend a meeting of the Board of Directors and may ask for their report or opinion.

### Article 13 (Resolution of a Meeting of the Board of Directors)

1. A resolution of a meeting of the Board of Directors shall be made by a majority of the Directors present at the meeting where a majority of the Directors are present.
2. If votes are split equally and there is no majority when a resolution is intended to be made under the preceding paragraph, the chairman may defer the resolution and propose the matter to be resolved again at the following meeting of the Board of Directors.
3. Although Directors each have one voting right, Directors who have a special interest in the business of a meeting of the Board of Directors may not exercise their voting rights. In this case, the number of voting rights held by such Director shall not be included in the number of voting rights held by Directors present, for the purpose of determining whether the resolution is adopted or not.
4. The Board of Directors shall respect, to the extent possible, the contents and outcome of discussions of the advisory body, which was established based on Article 18 in a resolution provided for in Paragraph 1.

### Article 14 (Minutes)

1. Minutes shall be prepared with respect to the business of a meeting of the Board of Directors, and the minutes shall be retained at the head office for a period of ten years.
2. The minutes shall state (i) the date and time on which and the place where a meeting of the Board of Directors was held, (ii) the substance of the proceedings of a meeting of the Board of Directors and the results thereof, (iii) the names of Directors if any who have a special interest in matters required to be resolved, (iv) the name of the chairman of the meeting, (v) if the meeting was convened by request of persons other than the convener or convened by persons other than the convener, such fact, (vi) the name of Directors if any who do not agree with the resolution, and other matters provided for in laws and regulations, and the Directors and the Corporate Auditors present shall affix their names and seals to the minutes.

## Regulations of the Board of Directors

LINE Corporation

3. If it is unnecessary to report to the Board of Directors pursuant to Article 7, Paragraph 4, (i) the contents of matters that were not required to be reported, (ii) the date on which the matters to be reported at a meeting of the Board of Directors were notified to all of the Directors and Corporate Auditors, and (iii) the name of the Director who performed the duties concerning the preparation of the minutes shall be stated in the minutes.
4. If a resolution of a meeting of the Board of Directors is deemed to have been adopted pursuant to Article 9, (i) the contents of matters which are deemed to have been resolved at a meeting of the Board of Directors, (ii) the name of the Director who proposed the matter set forth in (i), (iii) the day on which the resolution of the meeting of the Board of Directors is deemed to have been adopted, and (iv) the name of the Director who performed the duties concerning the preparation of the minutes shall be stated in the minutes.

### Article 15 (Notice to Absentees)

The substance of the proceedings of a meeting of the Board of Directors and the results thereof shall be notified to the Directors and the Corporate Auditors who were absent from such meeting.

### Article 16 (Administrative Office of the Board of Directors)

1. The BOD support team shall act as the administrative office of the Board of Directors.
2. The administrative office shall conduct the holding of meetings of the Board of Directors, the preparation and retention of minutes and other operations concerning the Board of Directors under the entrustment of the chairman.

### Article 17 (Transfer of Authority)

1. The Board of Directors may establish subsidiary conference bodies of the Board of Directors and transfer the authority of the Board of Directors, as provided for in Exhibit 2.
2. Management of conferences and others of subsidiary conference bodies shall be governed by rules separately established.

### Article 18 (Advisory Bodies)

The Board of Directors may establish advisory bodies of the Board of Directors and make the advisory bodies conduct necessary discussions, as provided for in Exhibit 3.

### Article 19 (Others)

Any matters regarding the management of the Board of Directors which are not provided in laws and regulations, the Articles of Incorporation or these Regulations, shall be subject to the discussions of a meeting of the Board of Directors and decisions of the chairman.

### Article 20 (Modification and Abolition)

The modification or abolition of these Regulations shall be subject to a resolution of a meeting of the Board of Directors. However, any amendment to a responsible department of the administrative office of the Board of Directors provided for in Article 16, the section in charge and the like provided for in this Article shall be subject to the approval of the Representative Director and President.

Regulations of the Board of Directors

LINE Corporation

Supplementary Provisions

These Regulations shall come into effect as of January 19, 2019.

Supplementary Provisions

These Regulations shall come into effect as of October 01, 2018.

Supplementary Provisions

These Regulations shall come into effect as of September 01, 2017.

Supplementary Provisions

These Regulations shall come into effect as of August 01, 2016.

Supplementary Provisions

These Regulations shall come into effect as of April 01, 2016.

Supplementary Provisions

These Regulations shall come into effect as of February 01, 2016.

Supplementary Provisions

These Regulations shall come into effect as of December 01, 2014.

Supplementary Provisions

These Regulations shall come into effect as of March 01, 2014.

Supplementary Provisions

These Regulations shall come into effect as of January 15, 2014.

Supplementary Provisions

These Regulations shall come into effect as of July 01, 2013.

Supplementary Provisions

These Regulations shall come into effect as of April 01, 2013.

Supplementary Provisions

These Regulations shall come into effect as of June 01, 2010.

Regulations of the Board of Directors

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Supplementary Provisions

These Regulations shall come into effect as of June 01, 2008.

Supplementary Provisions

These Regulations shall come into effect as of April 25, 2007.

Supplementary Provisions

These Regulations shall come into effect as of May 30, 2006.

Supplementary Provisions

These Regulations shall come into effect as of August 17, 2005.

Supplementary Provisions

These Regulations shall come into effect as of June 02, 2005.

## Regulations of the Board of Directors

LINE Corporation

<Exhibit 1 (In relation to Article 6, Paragraph 1)>

<<Matters to be Discussed at a Meeting of the Board of Directors>>

### 1. Matters concerning Management of Business

- (1) Determination of basic policy of corporate governance
- (2) Determination of basic policy concerning an Internal Control System
- (3) Determination and amendment of a budget for fiscal years of the Group
- (4) Other material matters concerning management of business

### 2. Matters concerning the General Meeting of Shareholders

- (1) Convocation of a general meeting of shareholders
- (2) Determination of the purpose of a general meeting of shareholders (Article 298 of the Companies Act)
- (3) Determination of order to act as chairman of a general meeting of shareholders
- (4) Other matters required for convocation of a general meeting of shareholders

### 3. Matters concerning the Directors and the Board of Directors

- (1) Determination of Director candidates
- (2) Appointment and removal of Representative Director(s) (Article 362 of the Companies Act)
- (3) Appointment and removal of Managerial Directors
- (4) Determination of duties to be assumed by each Director
- (5) Approval of a competitive transaction involving a Director (Article 365 of the Companies Act)
- (6) Approval of a transaction concerning a conflict of interest involving a Director (Article 365 of the Companies Act)
- (7) Allocation of a Director's compensation as has been resolved by a general meeting of shareholders
- (8) Determination of order to act as chairman of the Board of Directors
- (9) Execution of agreements for partial exemption from liability of Directors and Corporate Auditors, and limited liability agreements for Directors and Corporate Auditors
- (10) Directors' assumption of office of corporate officer of another company, an officer of any other organization, and public office (material assumption)
- (11) Other material matters concerning Directors and the Board of Directors



4. Matters concerning Financial Results

- (1) Approval of the consolidated financial statements
- (2) Approval of the financial statements and the supplementary statements thereof
- (3) Approval of business reports and the supplementary statements thereof
- (4) Approval of the quarterly statement of accounts
- (5) Approval of the internal control report
- (6) Changes in the accounting period
- (7) Determination of and changes in material accounting policy and determination of and changes in material accounting treatment
- (8) Other matters concerning financial results of the Company

5. Matters concerning Finance and Accounting

- (1) Determination concerning disposition of profit or disposition of loss
- (2) Determination of interim dividends (Article 454 of the Companies Act)
- (3) Determination of policy concerning fund management
- (4) Determination of policy of exchange forward contract and risk hedge
- (5) Determination of policy concerning appointment of correspondent financial institutions
- (6) Matters concerning dividend policy of subsidiaries
- (7) Determination of borrowing which exceeds 3 billion yen per case
- (8) Offering of corporate bonds which exceeds 3 billion yen per case
- (9) Determination of guarantee for obligations which exceeds 200 million yen per case
- (10) Lease fees which exceed 3 billion yen per case
- (11) Abandonment of inventory assets which exceeds 3 billion yen per case
- (12) Donation which exceeds 10 million yen per case
- (13) Exemption from obligations which exceeds 100 million yen per case
- (14) Establishment of collateral which exceeds 3 billion yen per case

## Regulations of the Board of Directors

LINE Corporation

(15) Transactions with materially associated companies

(16) Other material matters concerning finance and accounting

### 6. Matters concerning Investment, Alliance, and Reorganization

(1) Implementation of investment and lending whose cumulative total investment is expected to exceed 3 billion yen

(2) Transfer and acquisition of material business whose cumulative total investment is expected to exceed 3 billion yen

(3) Implementation of merger, company split, share exchange, and share transfer

(4) Implementation and cancellation of material business alliance

(5) Approval of material new business plan

(6) Determination of withdrawal from existing business whose costs on withdrawal exceed 3 billion yen

(7) Implementation of equipment investment whose cumulative total investment is expected to exceed 3 billion yen

(8) Transfer, acquisition, and licensing of material intellectual property rights

(9) Other matters concerning material investment and corporate reorganization

### 7. Matters concerning Organization and Human Resources of the Company

(1) Incorporation and dissolution of a new company and associated company

(2) Election and dismissal of Executive Officers

(3) Determination of duties to be assumed by Executive Officers and determination of their authority

(4) Election and dismissal of the person serving in Job C

(5) Determination of positional authority and material changes in positional authority and the division of duties

(6) Establishment, modification, and abolition of consultants, advisors, committees, and other material organization

(7) Establishment of branches

(8) Establishment, modification, and abolition of human resources rules such as the wage structure and rules of engagement (material establishment, modification, and abolition), and other matters concerning material human resources and labor affairs

(9) Other matters concerning material human resources and organization

## Regulations of the Board of Directors

LINE Corporation

### 8. Matters concerning Management of the Group

- (1) Approval of proposal for personnel changes in officers of materially associated companies (changes in representatives)
- (2) Consolidated subsidiaries' implementation of investment and lending which materially affect the consolidated results
- (3) Consolidated subsidiaries' transfer and acquisition of business which materially affect the consolidated results
- (4) Consolidated subsidiaries' commencement of new business which materially affects the consolidated results
- (5) Consolidated subsidiaries' capital alliance or the cancellation of such capital alliance which materially affects the consolidated results
- (6) Consolidated subsidiaries' business alliance or the cancellation of such business alliance which materially affects the consolidated results
- (7) Consolidated subsidiaries' abolition of existing business which materially affects the consolidated results
- (8) Consolidated subsidiaries' transfer, acquisition, and disposition of material fixed assets
- (9) Consolidated subsidiaries' implementation of merger, company split, share exchange, and share transfer
- (10) Changes in consolidated subsidiaries
- (11) Establishment and abolition of material overseas bases
- (12) Other material matters concerning management of the Group

### 9. Matters concerning Shares

- (1) Issuance of offered shares (Article 199 of the Companies Act)
- (2) Changes in the Articles of Incorporation concerning the total number of authorized shares in accordance with stock split and split ratio (Article 183 of the Companies Act and Article 184 of the Companies Act)
- (3) Allotment of shares without consideration (Article 186 of the Companies Act)
- (4) Capitalization of statutory reserves (Article 448 of the Companies Act)
- (5) Issuance of, changes to, and abolition of class shares
- (6) Issuance of corporate bonds (Article 362 of the Companies Act)
- (7) Issuance of corporate bonds with stock acquisition rights (Article 236 of the Companies Act)
- (8) Acquisition of treasury shares pursuant to resolution of an ordinary general meeting of shareholders

## Regulations of the Board of Directors

LINE Corporation

- (9) Disposition of treasury shares
- (10) Cancellation of treasury shares (Article 178 of the Companies Act)
- (11) Reduction or abolition of share unit number, and changes in the Articles of Incorporation accompanying it
- (12) Issuance of stock acquisition rights
- (13) Cancellation of stock acquisition rights
- (14) Acquisition of shares of the Company held by subsidiaries
- (15) Computerization of notice of a meeting
- (16) Computerization of exercise of voting rights
- (17) Adoption of written voting system
- (18) Closing of the shareholder registry or establishment of the record date (Article 124 of the Companies Act)
- (19) Selection of or changes in the shareholders registry administrator and its share handling office
- (20) Amendment of the Share Handling Regulations
- (21) Determination of listing, delisting and changing markets

### 10. Development of Internal Control System

- (1) Development of a system for ensuring that the duties of Directors are executed in compliance with laws and regulations, and the Articles of Incorporation
- (2) Development of a system concerning the preservation and management of information regarding execution of the duties of Directors
- (3) Development of rules for managing the risk of loss and other systems
- (4) Development of a system for ensuring that the duties of Directors are efficiently performed
- (5) Development of a system for ensuring that the duties of employees are in compliance with laws and regulations, and the Articles of Incorporation
- (6) System for ensuring the appropriateness of the business of the corporate group comprised of the Company, its parent company and subsidiaries
- (7) Matters concerning employees who support the execution of the Corporate Auditors' duties and are requested by the Corporate Auditors
- (8) Matters concerning the independence of the employees indicated in the preceding item from the Directors

## Regulations of the Board of Directors

LINE Corporation

- (9) System for Directors and employees to report to the Board of Corporate Auditors or the Corporate Auditors, and other systems relating to reporting to the Board of Corporate Auditors or the Corporate Auditors
  - (10) Other systems for ensuring that auditing by the Corporate Auditors is conducted in an efficient manner
11. Other Matters concerning Material Business Execution
- (1) Establishment, modification, and abolition of basic management rules such as the Board of Directors Regulations (material establishment, modification, and abolition)
  - (2) Determination of material policy concerning the Company's brand
  - (3) Determination of material policy concerning disclosure
  - (4) Determination of basic policy such as filing of or response to material lawsuits
  - (5) Changes in the trade name
  - (6) Filing of dissolution, bankruptcy proceedings, civil rehabilitation proceedings, corporate reorganization proceedings, special conciliation, and the like
  - (7) Other matters required to be resolved by the Board of Directors, pursuant to laws and regulations or the Articles of Incorporation

\* Matters with qualitatively high importance (e.g., entering regulated industries, or any other industries with high reputation risk) require the approval of the Board of Directors, regardless of the monetary standard.

### <<Matters to be Reported to the Board of Directors>>

- 1. Reports on status of business execution
  - (1) Monthly status of financial results (consolidated)
  - (2) Quarterly status of financial results and a quarterly financial report (consolidated)
  - (3) Other reports on status of progress concerning material business execution
- 2. Matters to be reported concerning the Internal Control System
  - (1) Reports on status of operation of the Internal Control System
  - (2) Other matters to be reported pursuant to the Internal Control System
- 3. Material facts concerning a Director entering into a competitive transaction or self-dealing transaction with the Company
- 4. Matters to be reported by the Board of Corporate Auditors
- 5. Other matters that the Board of Directors finds necessary

<Exhibit 2 (In relation to Article 17, Paragraph 1)>

The subsidiary conference bodies of the Board of Directors shall be as follows.

1. Management Meeting

(1) Purpose

To support the Director and President, and the Board of Directors by discussing and determining material matters concerning management of the business based on the basic management policy determined by the Board of Directors

(2) Date scheduled to be held

As provided for by the rules of the Management Meeting

(3) Convener

As provided for by the rules of the Management Meeting

(4) Attendees

As provided for by the rules of the Management Meeting

(5) Administrative Office

The BOD support team

2. Investment Strategy Meeting

(1) Purpose

To construct a system enabling flexible approval of investment and to establish the internal process relating to investment

(2) Date scheduled to be held

As provided for by the rules of the Investment Strategy Meeting

(3) Convener

As provided for by the rules of the Investment Strategy Meeting

(4) Attendees

As provided for by the rules of the Investment Strategy Meeting

(5) Administrative Office

The Investor Relations and Investment Development Department and The BOD support team

## Regulations of the Board of Directors

LINE Corporation

<Exhibit 3 (In relation to Article 18)>

The advisory bodies of the Board of Directors shall be as follows.

### 1. Advisory Board

#### (1) Purpose

To discuss and consider material contents of transactions with a related party or a conflict of interest, including transactions with the parent company, status of operations of the meeting of the Board of Directors, policy concerning the protection of minority shareholders, or the like

#### (2) Date scheduled to be held

As provided for by the Advisory Board Operation Policy

#### (3) Convener

As provided for by the Advisory Board Operation Policy

#### (4) Attendees

All of the Company's Outside Directors shall be attendees

#### (5) Administrative Office

The BOD support team

### 2. Outside Director Candidates Recommendation Committee

#### (1) Purpose

To hold discussions regarding candidates when electing Outside Directors and make a suggestion to the Board of Directors

#### (2) Date scheduled to be held

As provided for by the Outside Director Candidates Recommendation Committee Operating Policy

#### (3) Convener

As provided for by the Outside Director Candidates Recommendation Committee Operating Policy

#### (4) Attendees

All of the Company's Outside Directors and the Representative Director, President, and CEO shall be attendees

## Regulations of the Board of Directors

LINE Corporation

(5) Administrative Office

The BOD support team

3. Compensation Committee

(1) Purpose

To discuss and make suggestions to the Board of Directors regarding decisions on Director compensation to enhance the appropriateness and transparency of such decisions, thereby strengthening the supervisory function of the Board of Directors

(2) Date scheduled to be held

As provided for by the Compensation Committee Operating Policy

(3) Convener

As provided for by the Compensation Committee Operating Policy

(4) Members

Shall be composed of the Representative Director and President, Outside Directors, and non-executive Directors

(5) Administrative Office

Employee Success Department



**Certification by the Principal Executive Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Takeshi Idezawa, Chief Executive Officer of LINE Corporation (the “Company”), certify that:

1. I have reviewed this annual report on Form 20-F of the Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and
5. The Company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the board of corporate auditors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date: March 29, 2019

By: /s/ Takeshi Idezawa \_\_\_\_\_  
Name: Takeshi Idezawa  
Title: Chief Executive Officer

**Certification by the Principal Financial Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, In Joon Hwang, Chief Financial Officer of LINE Corporation (the “Company”), certify that:

1. I have reviewed this annual report on Form 20-F of the Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and
5. The Company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the board of corporate auditors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date: March 29, 2019

By: /s/ In Joon Hwang \_\_\_\_\_

Name: In Joon Hwang

Title: Chief Financial Officer

**Certification by the Principal Executive Officer  
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

I, Takeshi Idezawa, Chief Executive Officer of LINE Corporation (the “Company”), hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- the Company’s annual report on Form 20-F for the fiscal year ended December 31, 2018 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented therein.

Date: March 29, 2019

By: /s/ Takeshi Idezawa \_\_\_\_\_

Name: Takeshi Idezawa

Title: Chief Executive Officer

**Certification by the Principal Financial Officer  
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

I, In Joon Hwang, Chief Financial Officer of LINE Corporation (the “Company”), hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- the Company’s annual report on Form 20-F for the fiscal year ended December 31, 2018 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented therein.

Date: March 29, 2019

By: /s/ In Joon Hwang \_\_\_\_\_

Name: In Joon Hwang

Title: Chief Financial Officer