

SoftBank Vision Fund

Supplementary Information for Accounting Treatment and Disclosure

May 9, 2018

SoftBank Group Corp.

* This material describes the accounting treatment and disclosure of SoftBank Vision Fund ("SVF").
The Delta Fund has a similar accounting treatment and disclosure.



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All the conditions and amounts used as assumptions for the case studies in this material are not factual and are provided for an illustrative purpose only. They do not represent the factual conditions or amounts stipulated in the agreements or contracts related to the SoftBank Vision Fund.

[Objective of this document]

- ✓ This document serves as supplementary material for “SoftBank Vision Fund Business Model and Accounting Treatment”, released on February 9, 2018.
- ✓ The aim of this document is to help analysts who cover SBG clearly understand the affects SVF’s business will have on SBG’s consolidated financial statements, by comparing SBG’s consolidated financial statements to the financial statements commonly used by asset management companies, that do not consolidate their Limited Partnerships (Funds).

[Agenda]

- 1) Entities within scope of consolidation
- 2) Accounting treatment and presentation for investment performance
- 3) Accounting treatment and presentation for management fees and performance fees
- 4) Notes regarding related party transactions
- 5) Summary

Appendix

- ✓ Overview of SVF’s business scheme
- ✓ SBG’s scope of consolidation - Why SBG consolidates the Fund
- ✓ Accounting treatment and presentation for investment performance in typical asset management companies
- ✓ Example case

1) Entities within scope of consolidation

The scope of consolidation differs between SBG and typical asset management companies. Factors such as the ones outlined below are evaluated holistically to determine whether the Limited Partnership (Fund) is within the scope of consolidation (i.e., meet the criteria for control from the accounting perspective).

	SBG	Typical asset management company
Purpose of establishment	<ul style="list-style-type: none"> The purpose for establishing the Limited Partnership (Fund) is to contribute its own capital and to maximize the investment performance. 	<ul style="list-style-type: none"> The main purpose for establishing the Limited Partnership (Fund) is to gain fees (including performance fees), by executing investments via funds collected mostly from LPs – thereby minimizing its own risk.
<p>Analyze the criteria for control from the accounting perspective, taking into account the purpose of establishment</p>		
Power	<ul style="list-style-type: none"> The Investment Committee (consisting of SBG related members, such as Masayoshi Son) established in GP/SBIA UK, which is a wholly-owned subsidiary of SBG, is the decision-maker regarding investments from the Limited Partnership (Fund). The IAB^{*1}, which consists of major LPs except SBG, does not have the power to veto investment decisions. 	<ul style="list-style-type: none"> The asset management company is the decision-maker regarding investments from the Limited Partnership (Fund). Factors such as rights to remove the GP may give LPs influence over investment decisions.
Return	<ul style="list-style-type: none"> As an LP, SBG receives distributions based on investment performance. GP/SBIA UK (wholly owned subsidiary of SBG) receives performance fees based on investment performance of the Limited Partnership (Fund). 	<ul style="list-style-type: none"> The asset management company receives performance fees based on investment performance.
Ability to maximize returns using its power	<ul style="list-style-type: none"> SBG's aim is to maximize investment performance. SBG holds a considerable level of interest of the Limited Partnership (Fund), and earns returns proportional to its interest. 	<ul style="list-style-type: none"> The asset management company's aim is to maximize investment performance. The asset management company only holds a few percent of interests of the Limited Partnership (Fund); thus its potential returns are also limited.

After overall evaluation, determined to meet the criteria for control from the accounting perspective

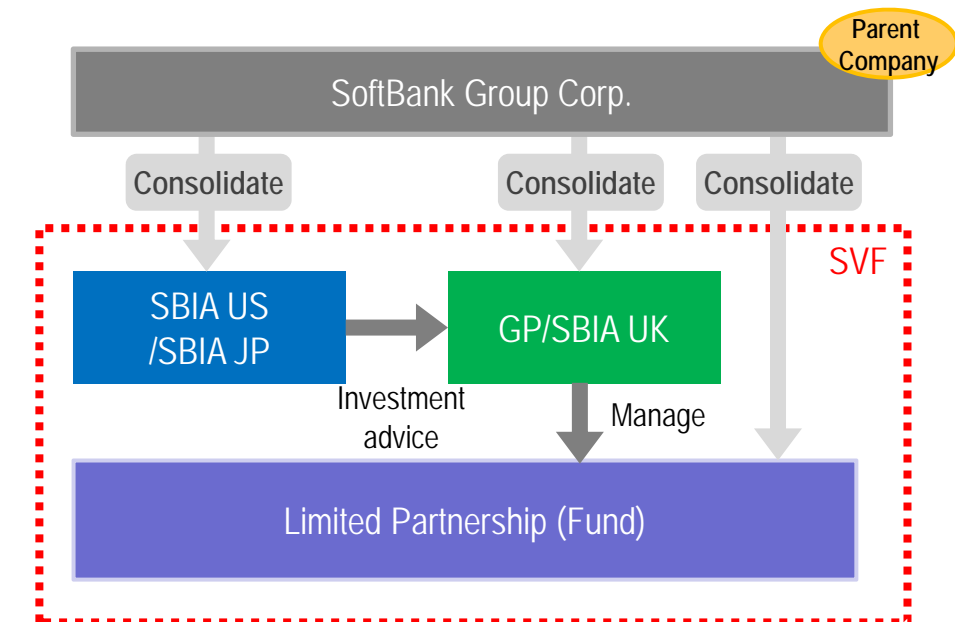
After overall evaluation, may be determined to not meet the criteria for control from the accounting perspective

*1 Abbreviation for Investment Advisory Board

1) Entities within scope of consolidation

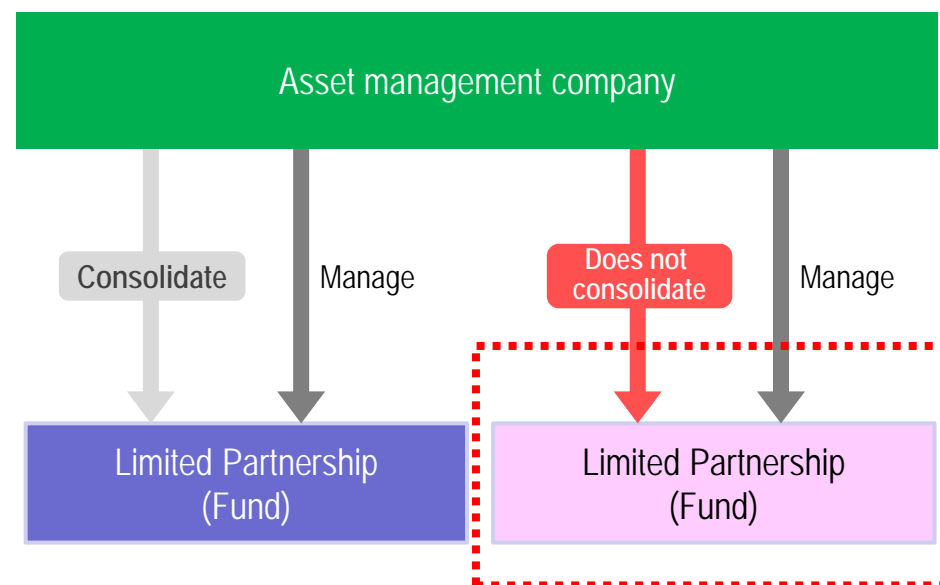
SBG consolidates all its Limited Partnerships (Funds). On the other hand, typical asset management companies consolidate only a portion of their Limited Partnerships; a large portion of the Limited Partnerships (Funds) is not consolidated.

SBG



- ✓ SBG consolidates all entities that compose SVF, including the Limited Partnership (Fund).
- ✓ SBG consolidates the Limited Partnerships (Funds) since it meets the criteria for control from the accounting perspective.

Typical asset management company



- ✓ Typical asset management companies consolidate only a portion of their Limited Partnerships (Funds); a large portion of their Limited Partnerships (Funds) is not consolidated since it does not meet the criteria for control from the accounting perspective.

2) Accounting treatment and presentation for investment performance - Assumptions used for the examples

The examples in pages 6 to 9 are calculated under the below assumptions:

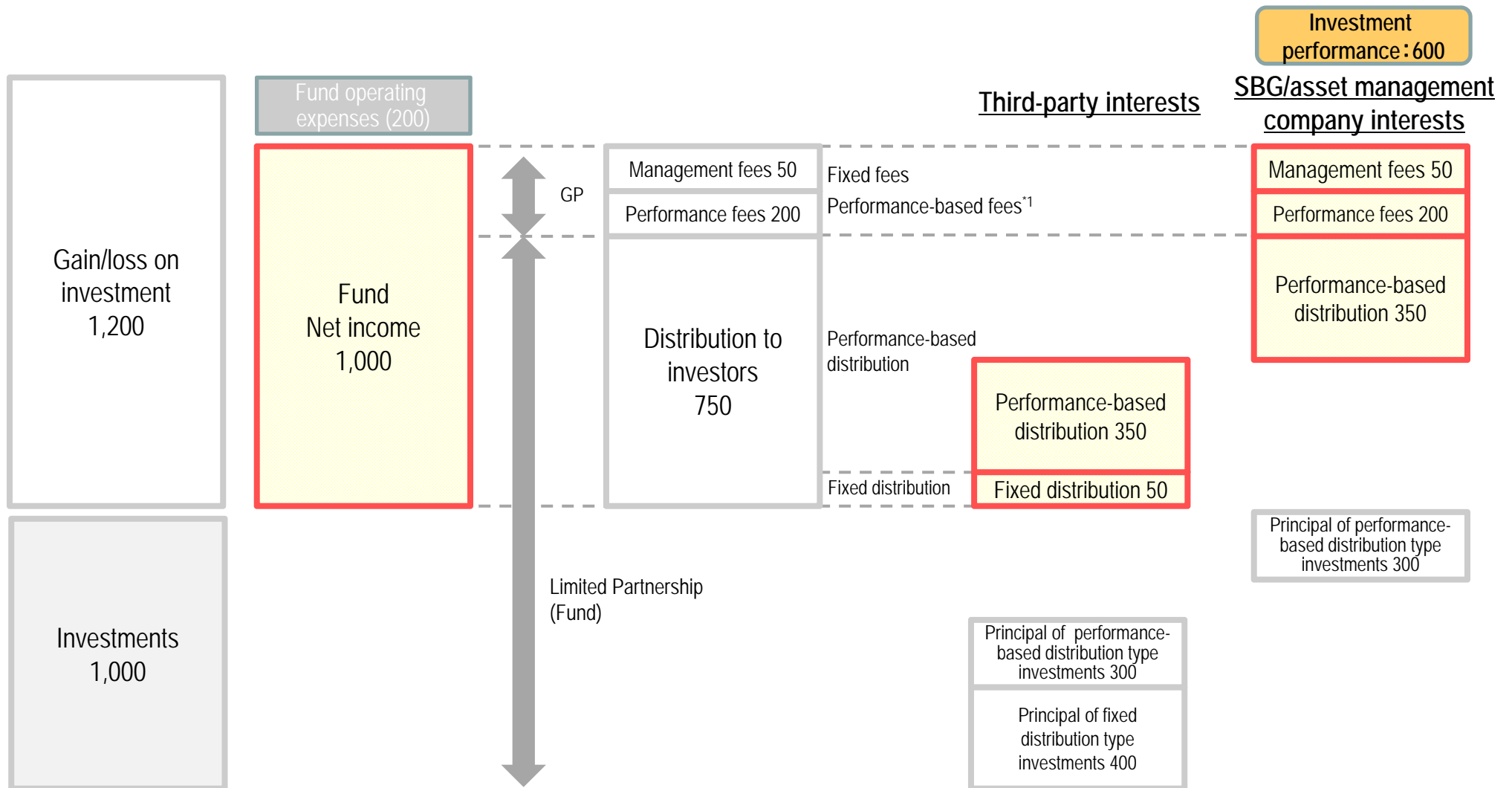
- Total amount of capital called by the Fund: 1,000 - which consist of:
 - SBG/asset management company (performance-based distribution type) = 300;
 - third-party investors (performance-based distribution type) = 300; and
 - third-party investors (fixed distribution type) = 400
- Total investment made by the Fund: 1,000
- Fair value of the investments as of the current fiscal year-end: 2,200 (gains on valuation: 1,200)
- Operating expenses of the Fund: 200
- Management fees paid to GP/SBIA UK/asset management company from the Fund: 50
- Performance fees paid to GP/SBIA UK/asset management company from the Fund: 200
- Distribution for the current fiscal year to fixed distribution type investors: 50
- Distribution ratio for performance-based distribution:
SBG/asset management company : Third-party investors = 1 : 1

* All of the conditions and amounts shown above are all **assumptions** used only for these illustrations.

2) Accounting treatment and presentation for investment performance

- Assumptions used for the examples

Out of the Limited Partnership's net income, 600 is distributed to SBG/asset management company, while 400 is distributed to third-party investors.



*1 Subject to clawback, given it meets certain conditions.

2) Accounting treatment and presentation for investment performance

- Presentation in P/L

The presentation of investment performance in the P/L differs depending on whether Limited Partnership (Fund) is within the scope of consolidation.

SBG

Consolidated P/L	Investment performance: +600
Net sales	
Cost of sales	
Gross profit	
Selling, general and administrative expenses	
Operating income (excluding income from SoftBank Vision Fund/Delta Fund)	
Operating income from SoftBank Vision Fund /Delta Fund +1,000	Refer to P. 8
Operating income	
.....	
Change in third-party interests in SoftBank Vision Fund/Delta Fund (400)	Refer to P. 8
.....	
Net income	

Typical asset management company

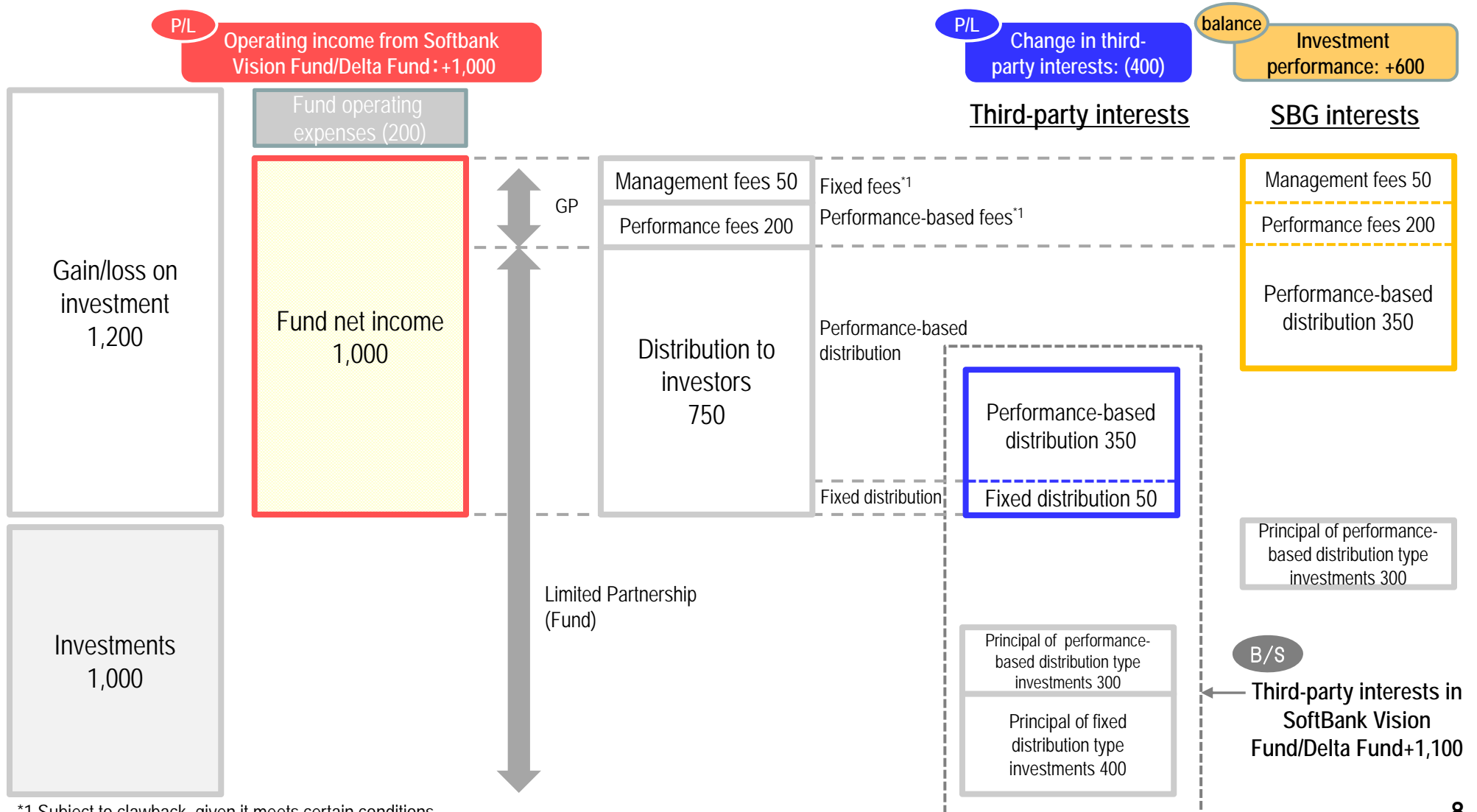
P/L	Investment performance: +600
Revenue	
Management fees +50	} Refer to P. 9
Performance fees +200	
Gain/loss on investments +350	
.....	
Expenses	
.....	
Operating income	
.....	
Net income	
.....	
* Investment performance of third-party investors is not recorded	Refer to P. 9

* For details regarding the accounting treatment for investment performance, refer to "SoftBank Vision Fund Business Model and Accounting Treatments" released on February, 9, 2018.

* The example above is based on the assumption that the Limited Partnership (Fund) is outside the scope of consolidation.
 * Gain/loss on investments is presented differently depending on the asset management company. For details, refer to "Accounting treatment and presentation for investment performance in typical asset management companies" in the appendix.

2) Accounting treatment and presentation for investment performance - SBG

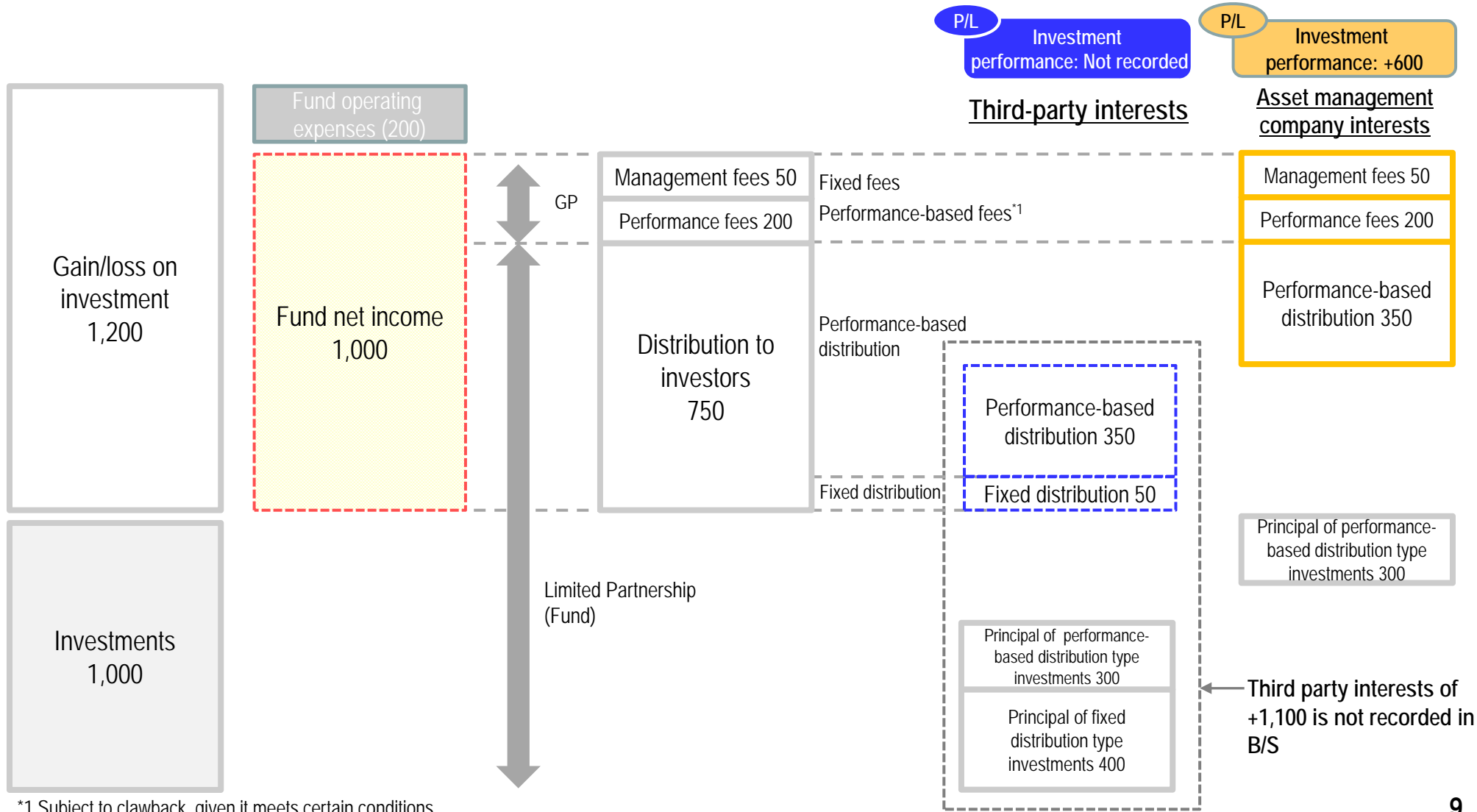
Investment performance of +600 is calculated by subtracting change in third-party interests of (400) from operating income from SoftBank Vision Fund/Delta Fund of +1,000. Also, third-party interests in SoftBank Vision Fund/Delta Fund of +1,100 is recorded in the consolidated B/S.



*1 Subject to clawback, given it meets certain conditions.

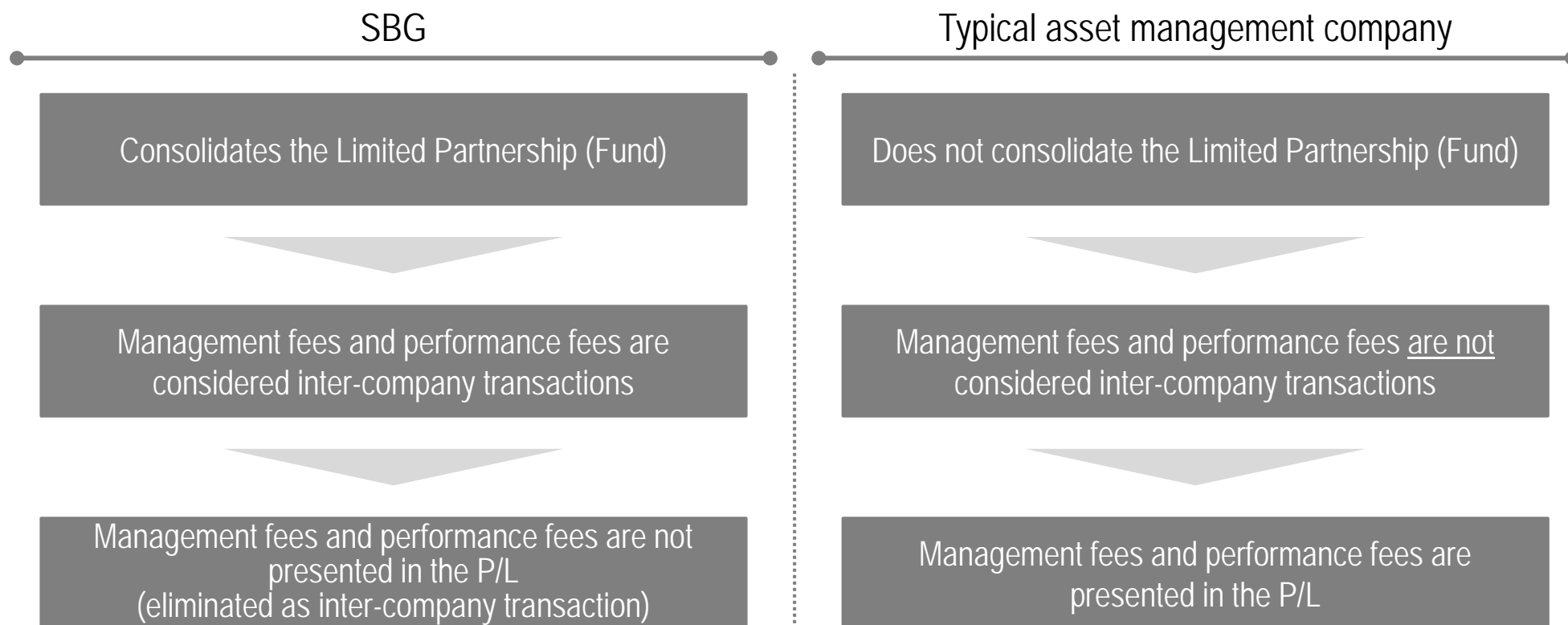
2) Accounting treatment and presentation for investment performance - Typical asset management company

Investment performance of the asset management company of +600 is recorded in the P/L, while the investment performance of third-party investors is not recorded in the P/L. However, if the asset management company consolidates the Limited Partnership (Fund), the accounting treatment for interests of third-party investors will be the same as SBG.



3) Accounting treatment and presentation for management fees and performance fees

In SBG, management fees and performance fees are not presented in the consolidated P/L since they are eliminated as inter-company transactions. On the other hand, typical asset management companies present their management fees and performance fees in the consolidated P/L, if the Limited Partnership (Fund) is outside the scope of consolidation.



Note: Management fees and performance fees are eliminated as the intercompany transactions, and included in "Operating income of SoftBank Vision Fund/Delta Fund".

Note: Management fees and performance fees are not presented in the P/L, in the case the asset management company consolidates the Limited Partnership (Fund).

4) Notes regarding related party transactions

Since SBG consolidates its Limited Partnerships (Funds), the Limited Partnerships (Funds) are not considered related parties subject to disclosure. On the hand, since typical asset management companies do not consolidate a portion of its Limited Partnerships (Funds), factors such as equity interest are taken into account to determine whether the Limited Partnerships (Funds) are considered related parties - in which case notes for related party are required.

SBG

Consolidates the Limited Partnership (Fund)

Limited Partnership (Fund) is not a related party that requires disclosure

Notes are not required, as the Limited Partnership (Fund) is not considered a related party subject to disclosure

Note: Since management fees and performance fees are eliminated in consolidation (as a result of the transaction being with an entity outside the scope of consolidation), it is not subject to disclosure as related party transaction. The same treatment applies for bridge investments.

Typical asset management company

Does not consolidate the Limited Partnership (Fund)

Not considered a related party after taking into account factors such as equity interests

Considered a related party after taking into account factors such as equity interests

Notes are not required, as the Limited Partnership (Fund) is not considered a related party subject to disclosure

Notes for related party are required

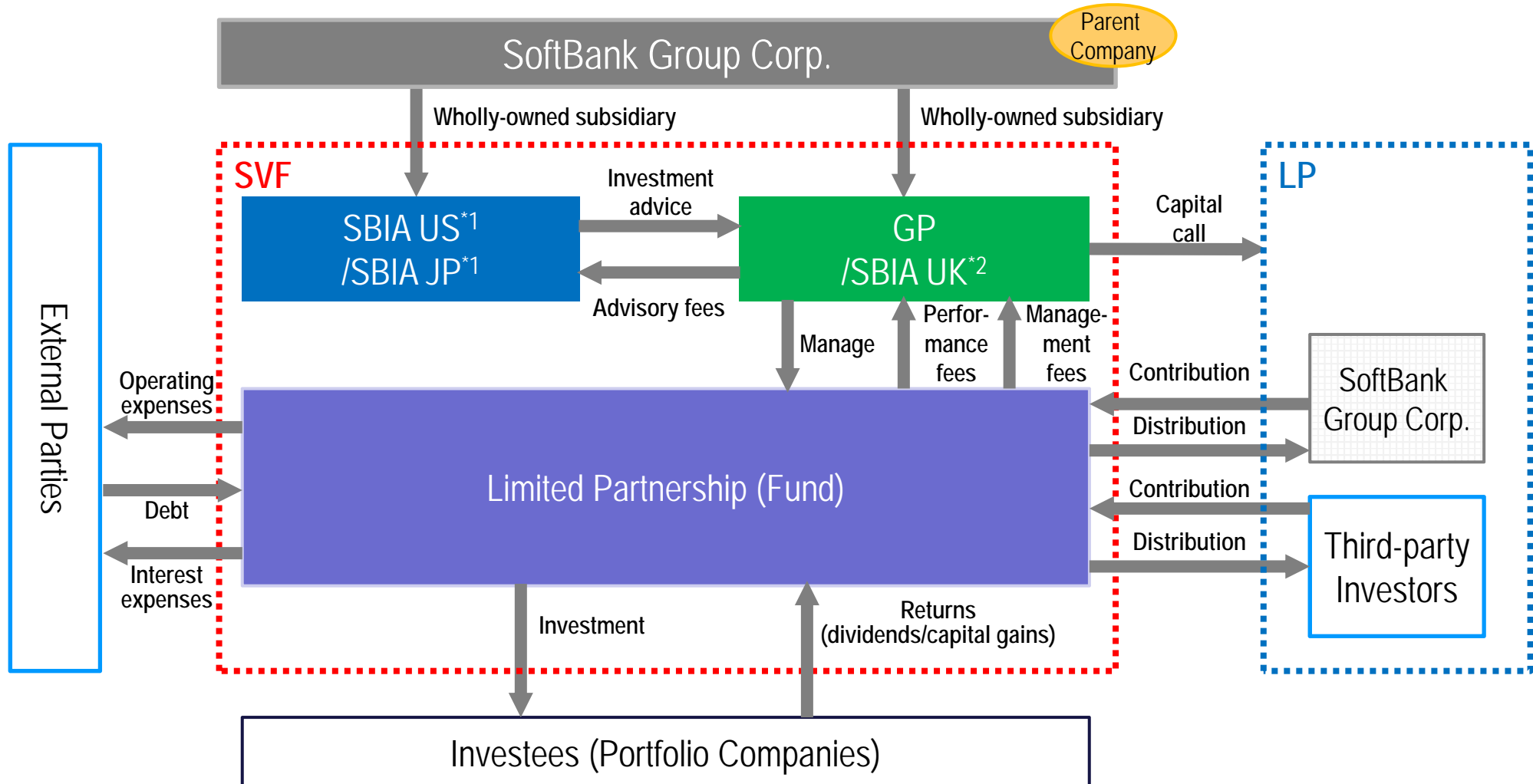
Note: In the case the asset management company consolidates the Limited partnership (Fund), notes for related party are not required (i.e., same as SBG).

5) Summary

	SBG	Typical asset management company	
Entities within scope of consolidation	Consolidate the Limited Partnership (Fund)	Consolidates only a portion of the Limited Partnerships (Funds); a large portion of the Limited Partnership (Fund) is not consolidated	
		Consolidate	Does not consolidate
Accounting treatment for investment performance	Record the entire amount in P/L, including the investment performance of third-party investors	Same treatment as SBG	Record only the investment performance of asset management company in P/L
Accounting treatment for third-party interests	Recorded in P/L (also in B/S)	Same treatment as SBG	Not recorded in P/L (also not in B/S)
Accounting treatment for management fees and performance fees	Not presented in P/L (Eliminated as inter-company transactions and included in "Operating income of SoftBank Vision Fund/Delta Fund")	Same treatment as SBG	Recorded in P/L
Notes for related party transactions	Notes are not required, as the Limited Partnership (Fund) is not considered a related party subject to disclosure	Same treatment as SBG	Notes required if considered a related party

- Appendix -

Overview of SVF's business scheme

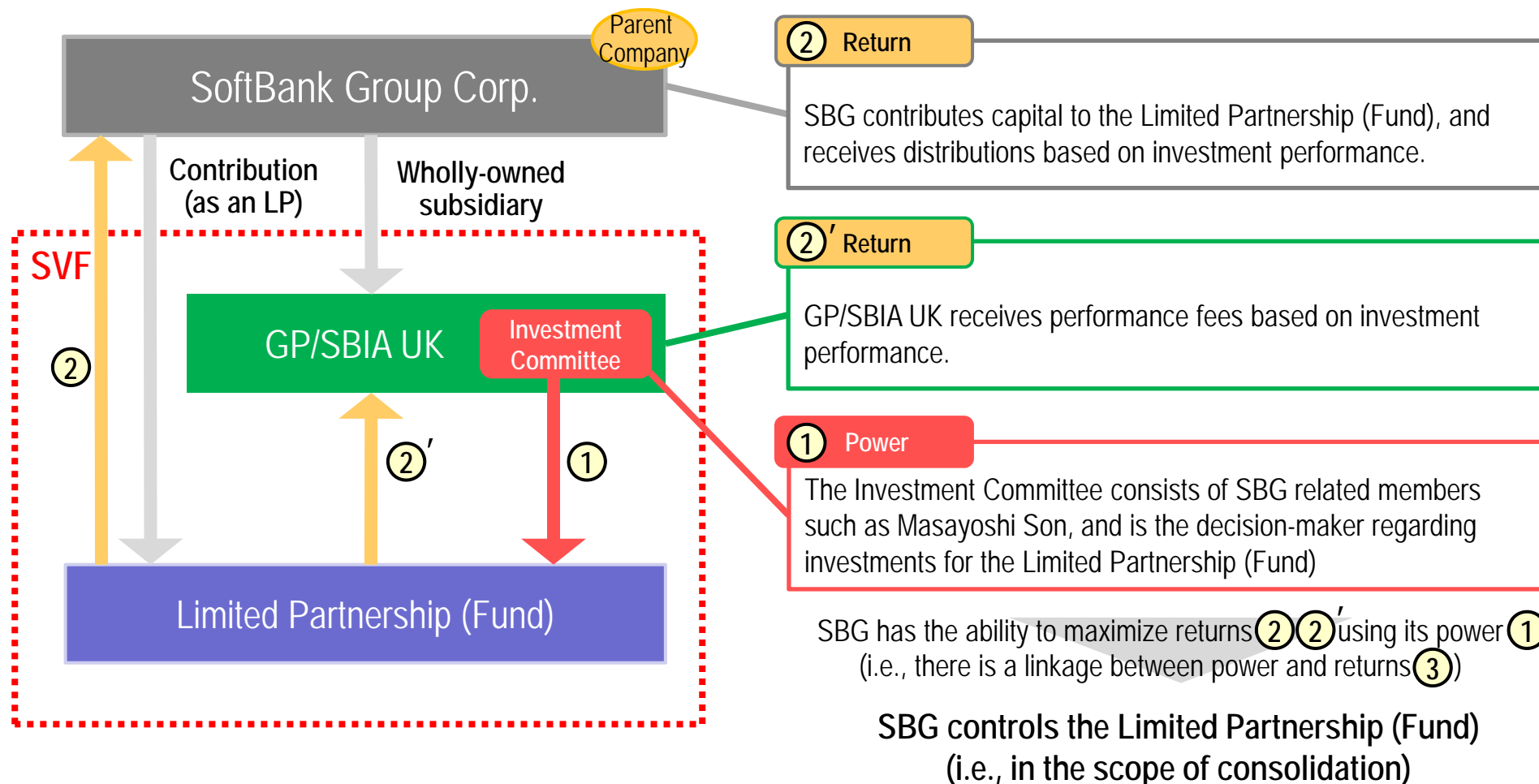


*1 US and Japan based advisory companies which provide investment advisory services to SBIA UK

*2 Entity responsible for managing SVF

SBG's scope of consolidation - Why SBG consolidates the Fund

Through the Investment Committee in GP/SBIA UK, SBG's wholly-owned subsidiary, SBG makes investment decisions for the Limited Partnership (Fund) ①. SBG receives distributions based on the investment performance as an LP ② as well as performance fees through GP/SBIA UK ②'. Since SBG has the ability to maximize SBG's returns ②②' using its power ① (i.e., there is a linkage between power and returns ③), SBG is determined to control the Limited Partnership (Fund) under IFRS 10.



Accounting treatment and presentation for investment performance in typical asset management companies

Accounting treatment for investment performance of the Limited Partnership (Fund) differs depending on whether the Limited Partnership (Fund) is within its scope of consolidation.

Limited Partnership (Fund) is outside scope of consolidation

Limited Partnership (Fund) is within scope of consolidation

Presentation

P/L
Revenue
Management fees
Performance fees
Gain/loss on investment
.....
Expenses
.....
Operating income
.....
.....
Net income
.....

P/L
Revenue
Management fees
Performance fees
.....
.....
Expenses
.....
Operating income
Gain on investment
.....
Net income
.....

Presentation

P/L
Revenue
.....
.....
Gain on investment
.....
Expenses
.....
Operating income
.....
Net income
.....

* Presentation of gain/loss on investment differs, depending on the asset management company.

Accounting treatment

- ✓ Changes in interests of the Limited Partnership (Fund), are recorded as gain on investment in the P/L

Accounting treatment

- ✓ Changes in fair value of investment securities held by the Limited Partnership (Fund) are recorded as investment performance under operating income or loss

Example Case - Management fees & Performance fees in Blackstone (US-GAAP)

Management fees and performance fees collected from Limited Partnerships (Funds), that are outside the scope of consolidation are recorded in the P/L.

	Year Ended December 31,				
	2017	2016	2015	2014	2013
	(Dollars in Thousands)				
Revenues					
Management and Advisory Fees, Net	\$ 2,729,056	\$ 2,442,975	\$ 2,542,505	\$ 2,497,252	\$ 2,193,985
Performance Fees	3,705,156	2,176,331	1,796,666	4,374,262	3,544,057
Investment Income	678,574	556,051	204,642	554,000	800,508
Interest and Dividend Revenue and Other	6,467	150,477	102,739	79,214	74,818
Total Revenues	7,119,053	5,125,834	4,646,552	7,484,728	6,613,168
Expenses					
Compensation and Benefits	2,930,815	2,203,430	2,290,751	3,154,371	3,257,667
General, Administrative and Other	466,316	520,309	576,103	549,463	474,442
Interest Expense	197,486	152,654	144,522	121,524	107,973
Fund Expenses	132,787	52,181	79,499	30,498	26,658
Total Expenses	3,727,404	2,928,574	3,090,875	3,855,856	3,866,740
Other Income					
Reduction of Tax Receivable Agreement Liability	403,855	—	82,707	—	20,469
Net Gains from Fund Investment Activities	321,597	184,750	176,364	357,854	381,664
Total Other Income	725,452	184,750	259,071	357,854	402,133
Income Before Provision for Taxes	4,117,101	2,382,010	1,814,748	3,986,726	3,148,561
Provision for Taxes	743,147	132,362	190,398	291,173	255,642
Net Income	3,373,954	2,249,648	1,624,350	3,695,553	2,892,919
Net Income Attributable to Redeemable Non-Controlling Interests in Consolidated Entities	13,806	3,977	11,145	74,794	183,315
Net Income Attributable to Non-Controlling Interests in Consolidated Entities	497,439	246,152	219,900	335,070	198,557
Net Income Attributable to Non-Controlling Interests in Blackstone Holdings	1,391,879	960,284	683,516	1,701,100	1,339,845
Net Income Attributable to The Blackstone Group L.P.	\$ 1,470,830	\$ 1,039,235	\$ 709,789	\$ 1,584,589	\$ 1,171,202

(Source) Blackstone 2017/12/31 10-K

Example Case - Related party transactions in Blackstone (US-GAAP)

Transactions with Limited Partnerships (Funds) that are outside the scope of consolidation and considered related parties, are disclosed in the notes for related party transactions.

17. RELATED PARTY TRANSACTIONS

Affiliate Receivables and Payables

Due from Affiliates and Due to Affiliates consisted of the following:

	December 31,	
	2017	2016
Due from Affiliates		
Advances Made on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees Principally for		
Investments in Blackstone Funds	\$ 410,877	\$ 342,943
Amounts Due from Portfolio Companies and Funds	587,955	456,469
Management and Performance Fees Due from Non-Consolidated Funds	595,330	445,280
Payments Made on Behalf of Non-Consolidated Entities	355,767	196,134
Investments Redeemed in Non-Consolidated Funds of Hedge Funds	77,943	1,552
Accrual for Potential Clawback of Previously Distributed Carried Interest	1,112	—
	<u>\$ 2,028,984</u>	<u>\$ 1,442,378</u>

	December 31,	
	2017	2016
Due to Affiliates		
Due to Certain Non-Controlling Interest Holders in Connection with the Tax Receivable Agreements	\$ 715,734	\$ 1,186,145
Distributions Received on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees	87,829	28,012
Distributions Received on Behalf of Blackstone Entities	38,789	80,034
Payments Made by Non-Consolidated Entities	51,249	19,833
Due to Note Holders of Consolidated CLO Vehicles	41,386	7,748
Accrual for Potential Repayment of Previously Received Performance Fees	2,171	—
	<u>\$ 937,158</u>	<u>\$ 1,321,772</u>

(Source) Blackstone 2017/12/31 10-K

Example Case - Management fees & Performance fees in Schroders (IFRS)

Management fees and performance fees collected from Limited Partnerships (Funds) that are outside the scope of consolidation are recorded in the P/L and disclosed in the notes.

Consolidated income statement for the year ended 31 December 2017

	Notes	2017			2016		
		Before exceptional items £m	Exceptional items ³ £m	Total £m	Before exceptional items £m	Exceptional items ³ £m	Total £m
Revenue	2	2,511.7	-	2,511.7	2,144.9	-	2,144.9
Cost of sales	3	(501.5)	-	(501.5)	(432.1)	-	(432.1)
Net operating revenue		2,010.2	-	2,010.2	1,712.8	-	1,712.8
Net gains on financial instruments and other income	4	35.2	(3.5)				
Share of profit of associates and joint ventures	11	23.5	(1.8)				
Net income		2,068.9	(5.3)	2,063.6	1,712.8	-	1,712.8
Operating expenses	5	(1,268.6)	(34.8)	(1,303.4)			
Profit before tax		800.3	(40.1)	760.2			
Tax	6(a)	(171.6)	5.8	(165.8)			
Profit after tax¹		628.7	(34.3)	594.4			
Earnings per share							
Basic	7	226.9p	(11.6)p	215.3p			
Diluted	7	222.4p	(11.4)p	211.0p			
Dividends per share²	8						

2. Revenue

The Group's primary source of revenue is fee income from investment management activities performed within both the Asset Management and Wealth Management segments. Fee income includes management fees, performance fees and other income. Revenue also includes interest income earned within the Wealth Management segment.

Management fees are generated through investment management agreements and are generally based on an agreed percentage of the valuation of AUM. Management fees are recognised as the service is provided and it is probable that the fee will be received.

Performance fees are earned from some arrangements when contractually agreed performance levels are exceeded within specified performance measurement periods. They are only recognised at the end of these performance periods, when a reliable estimate of the fee can be made and it is almost certain that the fee will be received.

Other income principally comprises revenues for other services which are typically driven by levels of AUM, along with revenues which vary according to the volume of transactions. Other income is recorded as the relevant services are provided and the receipt of income is almost certain.

Within Wealth Management, earning a net interest margin is a core activity. Interest income earned as a result of placing loans and deposits with other financial institutions, advancing loans and overdrafts to clients and holding debt and other fixed income securities is recognised within revenue. Interest income is recognised as it is earned using the effective interest method, which allocates interest at a constant rate of return over the expected life of the financial instrument based on the estimated future cash flows.

Revenue comprises:

	2017 £m	2016 £m
Management fees	2,155.6	1,848.3
Performance fees	78.4	41.2
Other income	245.4	223.8
Wealth Management interest income earned	32.3	31.6
	2,511.7	2,144.9

(Source) Schroders Annual Report and Accounts 2017

Example Case - Related party transactions in Aberdeen (IFRS)

Transactions with Limited Partnerships (Funds) that are outside the scope of consolidation and considered related parties, are disclosed in the notes for related party transactions.

46. Related party transactions

(a) Transactions and balances with related parties

In the normal course of business, the Group enters into transactions with related parties that relate to insurance and investment management business.

During the year, the Group recognised management fees from Group managed non-consolidated investment vehicles. These fees are disclosed in Note 40. It also recognised management fees of £4m (2016: £5m) from the Group's defined benefit pension plans. There were no sales to or purchases from associates accounted for under the equity method during the year ended 31 December 2017 or 31 December 2016.

There were no sales to or purchases from joint ventures during the year ended 31 December 2017 (2016: purchases of £1m). Details of the proposed sale of a subsidiary to our joint venture business are included in Note 24.

In addition to these transactions between the Group and related parties during the year, in the normal course of business the Group made a number of investments into/divestments from investment vehicles managed by the Group including investment vehicles which are classified as investments in associates measured at FVTPL. Group entities paid amounts for the issue of shares or units and received amounts for the cancellation of shares or units.

The Group had balances due from associates accounted for using the equity method of £nil (2016: £nil) and from joint ventures of £nil (2016: £3m) at 31 December 2017. The Group's defined benefit pension plans have assets of £1,210m (2016: £1,028m) invested in investment vehicles managed by the Group.

(b) Compensation of key management personnel

In 2017 key management personnel includes Directors of Standard Life Aberdeen plc (since appointment) and the Chief Executive Officer Pensions and Savings; in 2016 key management personnel included Directors of Standard Life plc only. Detailed disclosures of Directors' remuneration for the year and transactions in which the Directors are interested are contained within the audited section of the Directors' remuneration report.

The summary of compensation of key management personnel is as follows:

	2017	2016
	£m	£m
Salaries and other short-term employee benefits	9	6
Post-employment benefits	–	1
Share-based payments	3	3
Termination benefits	1	–
Total compensation of key management personnel	13	10

(c) Transactions with key management personnel and their close family members

All transactions between key management and their close family members and the Group during the year are on terms which are equivalent to those available to all employees of the Group.

During the year to 31 December 2017, key management personnel and their close family members contributed £nil (2016: £1m) to Pensions and Savings products sold by the Group. At 31 December 2017 the total value of key management personnel's investments in Group Pensions and Savings products was £14m (2016: £16m). Certain members of key management personnel also hold investments in Aberdeen Standard Investments products which are managed by the Group. None of the amounts concerned are material in the context of funds managed by Aberdeen Standard Investments.