

Accounting Treatments for SoftBank Vision Fund

September 1, 2017

SoftBank Group Corp.



Disclaimer

This material was prepared based on information available and views held at the time it was made. Statements in this material that are not historical facts, including, without limitation, plans, forecasts and strategies are “forward-looking statements”.

Forward-looking statements are by their nature subject to various risks and uncertainties, including, without limitation, a decline in general economic conditions, general market conditions, technological developments, changes in customer demand for products and services, increased competition, risks associated with international operations, and other important factors, each of which may cause actual results and future developments to differ materially from those expressed or implied in any forward-looking statement.

With the passage of time, information in this material (including, without limitation, forward-looking statements) could be superseded or cease to be accurate. SoftBank Group Corp. disclaims any obligation or responsibility to update, revise or supplement any forward-looking statement or other information in any material or generally to any extent. Use of or reliance on the information in this material is at your own risk. Information contained herein regarding companies other than SoftBank Group Corp. and other companies of the SoftBank Group is quoted from public sources and others. SoftBank Group Corp. has neither verified nor is responsible for the accuracy of such information.

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.**

Agenda

- Accounting treatments -

1. General

- 1) Accounting treatment for entities composing SoftBank Vision Fund
- 2) Accounting treatment for investees (portfolio companies)
- 3) Accounting treatment for third-party interests in SoftBank Vision Fund
- 4) Overview of consolidated financial statements and segment information

2. Illustrations

- 1) Interests of SoftBank Group Corp. and third-party
- 2) Accounting treatments and presentations of investments

*Abbreviations in this material: “SBG” represents SoftBank Group Corp., and “SVF” for SoftBank Vision Fund

Agenda

- Appendix -

- 1) Definition of “investment entity” under IFRS
- 2) Accounting treatments and presentations of investments (non-subsidary)
 - i. General
 - ii. Bridge investments
- 3) List of major investments from SVF
- 4) Valuation techniques for investments

- Accounting treatments -

- Accounting treatments -

1. General

- 1) Accounting treatment for entities composing SoftBank Vision Fund
- 2) Accounting treatment for investees (portfolio companies)
- 3) Accounting treatment for third-party interests in SoftBank Vision Fund
- 4) Overview of consolidated financial statements and segment information

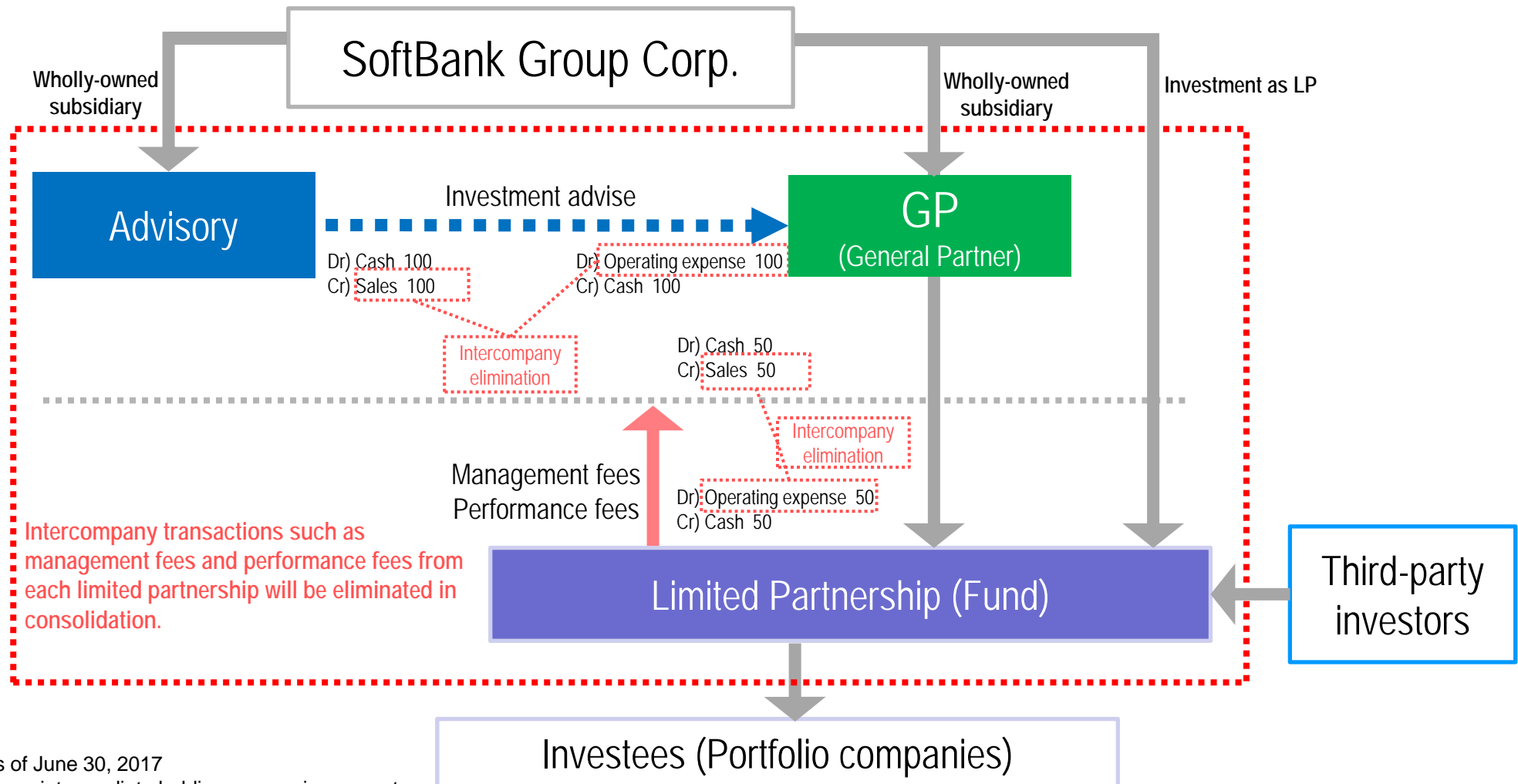
2. Illustrations

- 1) Interests of SoftBank Group Corp. and third-party
- 2) Accounting treatments and presentations of investments

*Abbreviations in this material: “SBG” represents SoftBank Group Corp., and “SVF” for SoftBank Vision Fund

1) Accounting treatment for entities composing SVF

SoftBank Vision Fund (SVF) consists of several limited partnerships (funds), general partners ("GPs"), advisory companies and newly-established holding entities for several of the portfolio company investments. **All these entities are consolidated by SBG.**



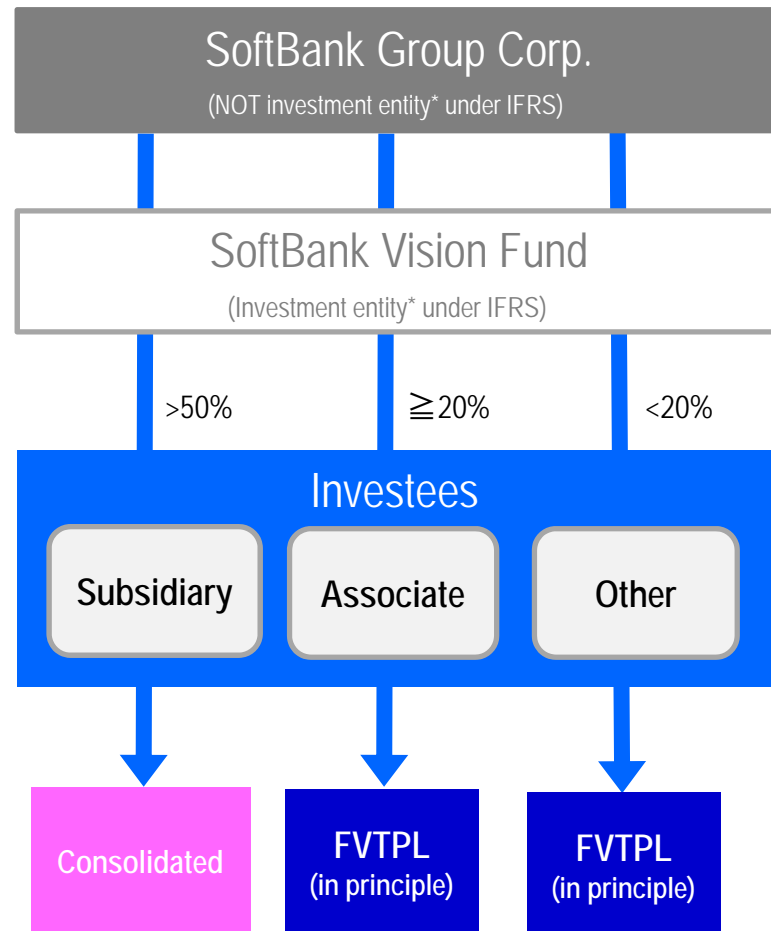
*As of June 30, 2017

*Some intermediate holding companies are not presented in this table.

2) Accounting treatment for investees (portfolio companies)

Subsidiaries are consolidated, and investments except for subsidiaries are in principle treated as financial instruments at FVTPL in SBG consolidated financial statements

SBG consolidation:

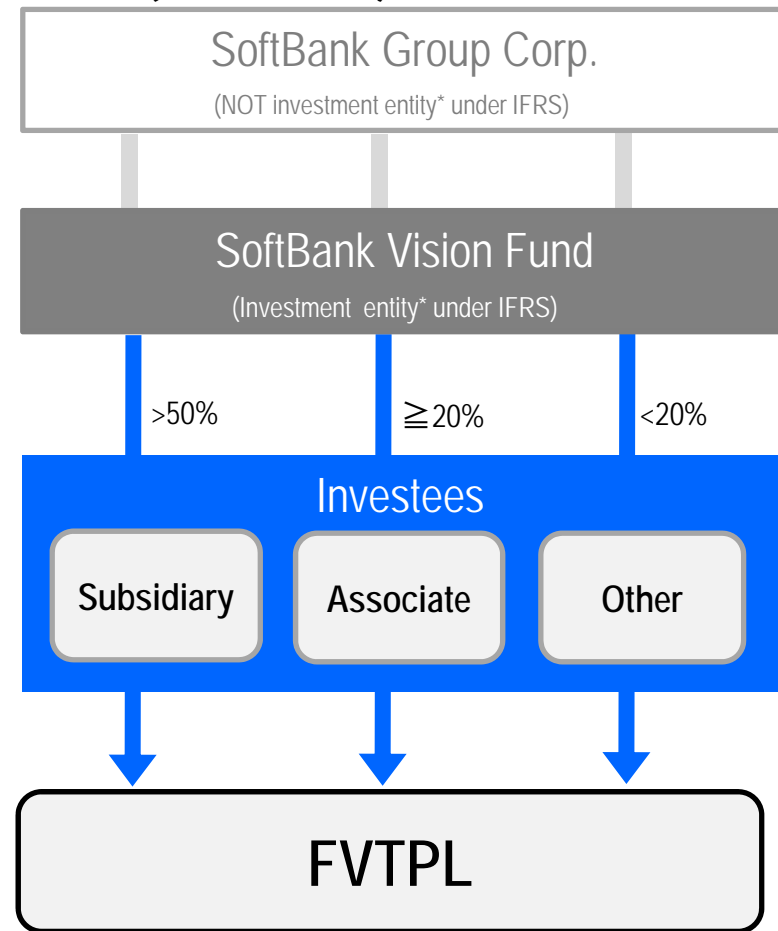


See “Illustrations 2) Accounting treatments and presentations of investments”

*FVTPL (Fair Value Through Profit or Loss): assets and liabilities are valued at fair value at the end of each quarter, with changes recognized on P/L.

Fund (stand-alone):

*See P24 for the definition of “Investment entity”



<Control>

Accounting treatment

3) Accounting treatment for third-party interests in SVF

Third-party interests are classified as liabilities

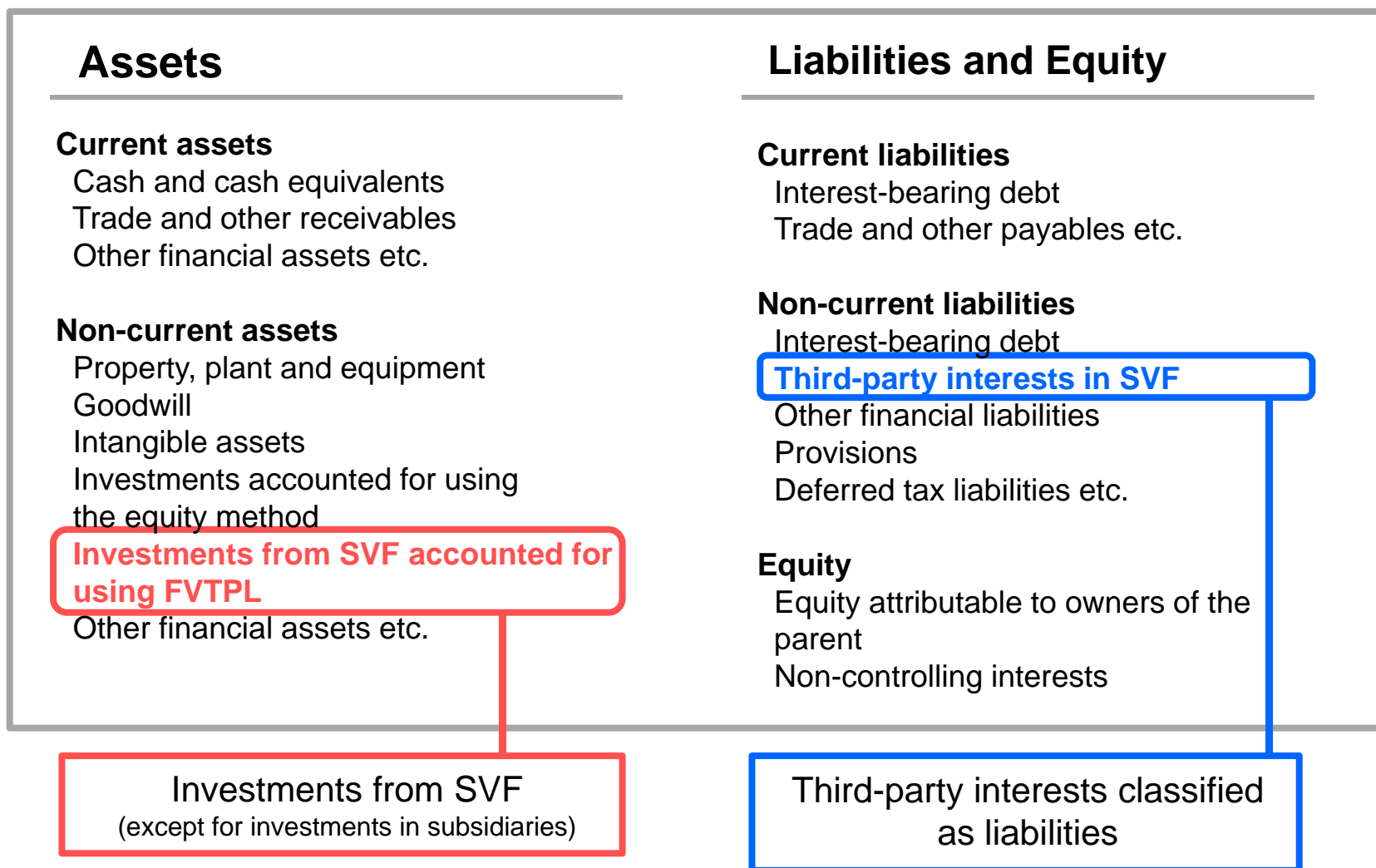
**Fund life is finite;
Obligated to distribute to
investors**

**Third-party interests
classified as "liabilities"**

Two types of contribution to SVF:
- Equity (Performance-based)
- Preferred Equity (Fixed)

Consolidated Statement of Financial Position (B/S)

(except for a case where the investee is a subsidiary)



Consolidated Statement of Income (P/L)

(except for a case where the investee is a subsidiary)

Net sales

Cost of sales

Gross profit

Selling, general and administrative expenses

Operating income (excluding income from SVF)

Operating income from SVF

Operating income

Finance cost (interest expenses)

Income (loss) on equity method investments

Changes in third-party interests in SVF

Other non-operating income (loss)

Income before income tax

Income taxes

Net income

Net income attributable to

Owners of the parent

Non-controlling interests

[Gains/losses from investments]

- Realized gain and loss on sales of investments
- Unrealized gain and loss on valuation of investments
- Interest and dividend income from investments (except for gain and loss on investments in subsidiaries)

[Operating expenses]

- Incorporation expenses of entities that comprise SVF
- Investment research expenses arising from the GP and advisory companies
- Administrative expenses arising from each entity

- Changes in third-party interests in SVF arising from operating income from SVF.

Consolidated Statement of Cash Flows (CF)

(except for a case where the investee is a subsidiary)

Cash flows from operating activities

Net income
Depreciation and amortization
Gain on investments at SVF
Change in third-party interests in SVF etc.
Subtotal
Interest and dividends received
Interest paid

Cash flows from investing activities

Purchase of property, plant and equipment,
and intangible assets

Payments for acquisition of investments by SVF
Proceeds from sales of investments by SVF

etc.

Cash flow related to investments from SVF (acquisitions / disposals etc.)

Cash flows from financing activities

Proceeds from interest-bearing debt
Repayment of interest-bearing debt

Contributions into SVF from third-party interests in SVF
Distributions and redemption paid to third-party interests in SVF

etc.

Cash flow related to third-party investors in SVF (contributions / redemption / distribution etc.)

Increase (decrease) in cash and cash equivalents
Cash and cash equivalents at the beginning of the period
Cash and cash equivalents at the end of the period

Segment information (except for a case where the investee is a subsidiary)

	Domestic telecom	...	SVF	Other	Reconciliations	Consolidated
Net sales	XXX	...	-	XXX	XXX	XXX
Segment income	XXX	...	XXX	XXX	XXX	XXX
EBITDA	XXX	...	XXX	XXX	XXX	XXX
Unrealized gain/loss on valuation of investments in SVF	-	...	(xxx)	XXX	XXX	XXX
Adjusted EBITDA	XXX	...	XXX	XXX	XXX	XXX

= Operating income from SVF

= **Realized** gain and loss on sales of investments + Interest and dividend income from investments – operating expenses

Deduct **unrealized** gain/loss

Agenda

- Accounting treatments -

1. General

- 1) Accounting treatment for entities composing SoftBank Vision Fund
- 2) Accounting treatment for investees (portfolio companies)
- 3) Accounting treatment for third-party interests in SoftBank Vision Fund
- 4) Overview of consolidated financial statements and segment information

2. Illustrations

- 1) Interests of SoftBank Group Corp. and third-party
- 2) Accounting treatments and presentations of investments

*Abbreviations in this material: “SBG” represents SoftBank Group Corp., and “SVF” for SoftBank Vision Fund

1) Interests of SoftBank Group Corp. and third-party - 1

Below are the assumptions used for illustrations on P15-16

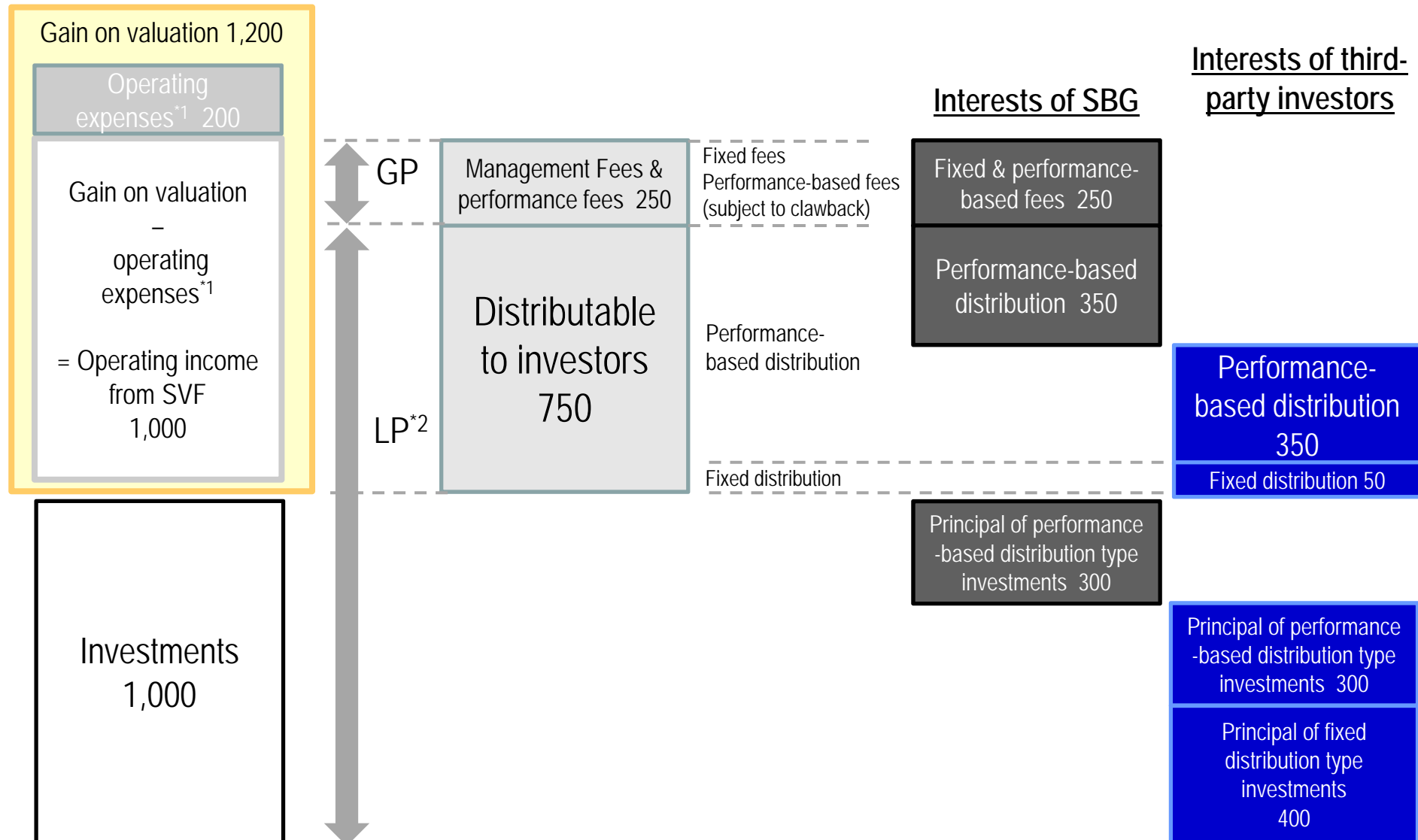
:

- Total amount of capital called by the Fund: 1,000 consist of
SBG (performance-based distribution type) = 300;
third-party investors (performance-based distribution type) = 300; and
third-party investors (fixed distribution type) = 400
- Total investments made by the Fund: 1,000
- Fair value of the investment as of the current fiscal year-end: 2,200 (gain on valuation: 1,200)
- Operating expenses of the Fund excluding management/performance fees: 200
- Management fees and performance fees paid to GP/Advisory from the Fund: 250
- Distribution for the current fiscal year to fixed distribution type investors: 50
- Distribution ratio for performance-based distribution:
SBG : Third-party investors = 1 : 1

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

1) Interests of SoftBank Group Corp. and third-party - 2

Waterfall for distribution to SBG and third-party investors



* 1: Excluding management fees and performance fees
 * 2: Limited partnerships

1) Interests of SoftBank Group Corp. and third-party - 3

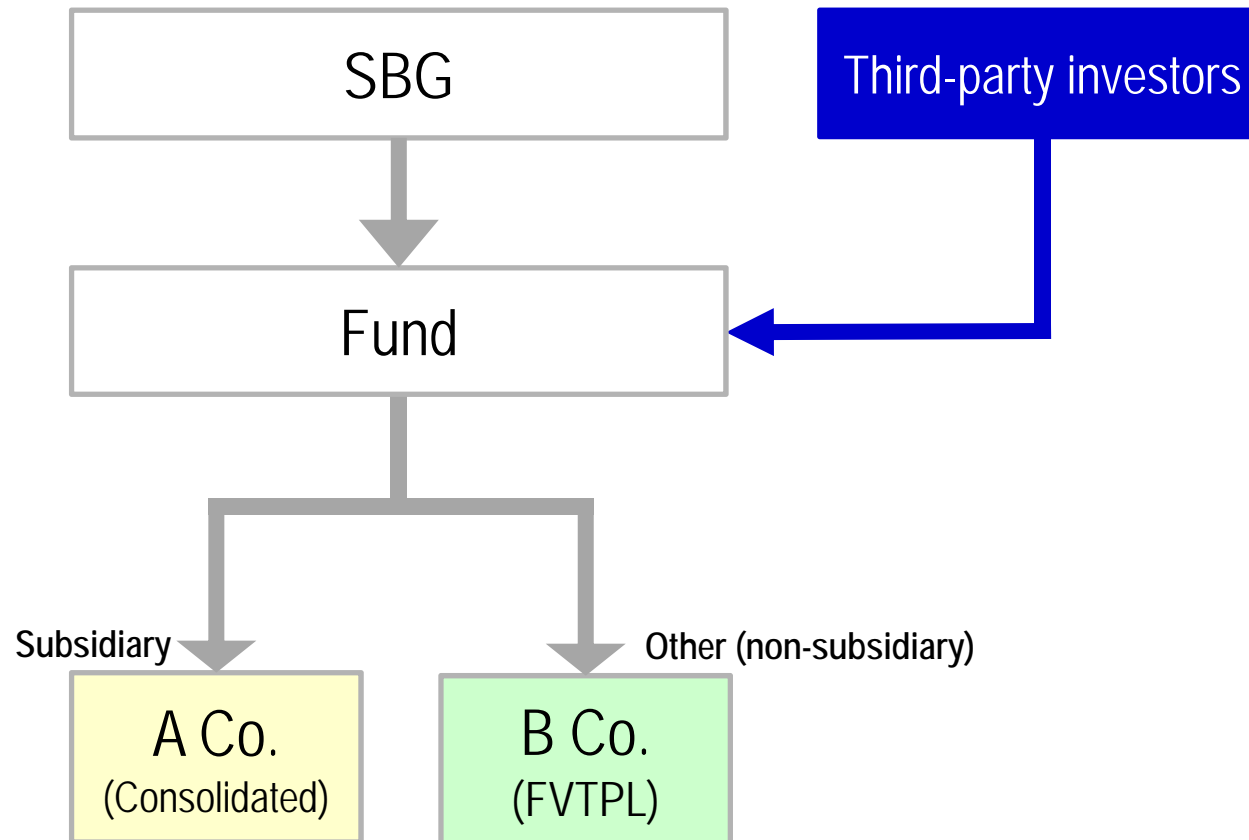
Illustrative example of PL for the distribution flow on page 15 (assumptions: all investees are non-subidiaries)

SVF P/L			SBG consolidated P/L			
Recorded item		LP (Fund)	GP / Advisory	Reconciliations	Consolidated	Presentation
Net sales	Gain on valuation	+1,200	-		-	-
Net sales	Management fees & performance fees		+250	(250)	-	-
Operating expenses	Operation Expenses excluding management fees & performance fees	(200)	-		-	-
Operating expenses	Management fees & performance fees	(250)	-	+250	-	-
Operating income		+750	+250	-	+1,000	Operating income from SVF
Non-operating expenses		-	-	(400)	(400)	Change in third-party interests in SVF
Net income	*This P/L is simplified for illustrative examples.	+750	+250	(400)	+600	Net income
Net income attributable to	SBG (performance-based distribution type)	+350	+250	=	+600	
	third-party investors (performance-based distribution type)	+350				
	Third-party investors (fixed distribution type)	+50				

- 1** Intercompany transactions, such as management fees and performance fees to the GPs or advisories paid out from each limited partnership, are eliminated in consolidation.
- 2** Out of Fund's net income (750), net income attributable to third-party investors (400) is recognized as non-operating expenses in SBG consolidated P/L. **16**

2) Accounting treatments and presentations of investments - 1

(Assumption) Investments from the Fund and capital relationship



2) Accounting treatments and presentations of investments - 2

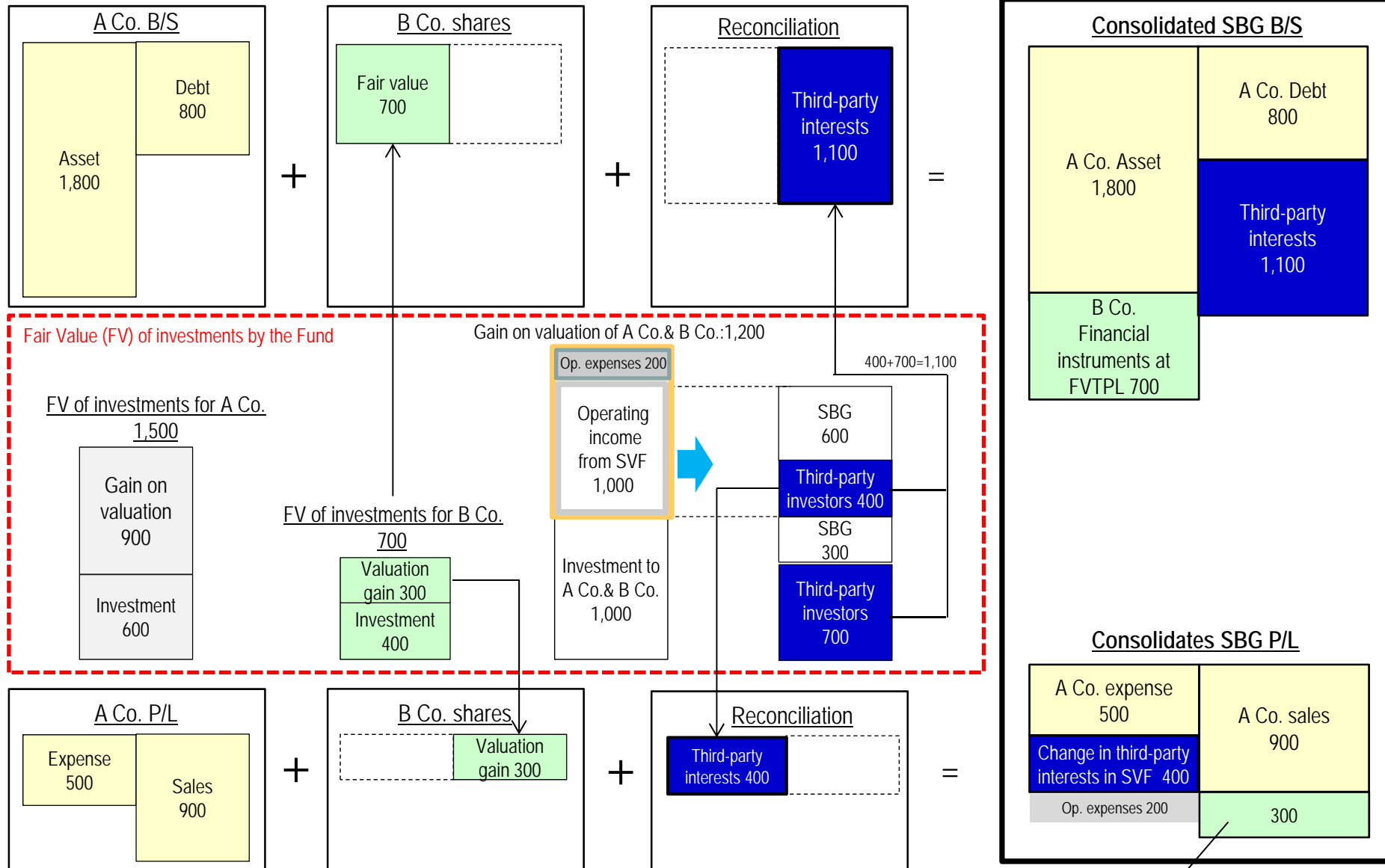
Below are the assumptions used for illustrations on P19-20 (A Co.=subsidiary, B Co.=non-subsidiary):

- Total amount of capital called by the Fund: 1,000 consist of
SBG (performance-based distribution type) = 300;
third-party investors (performance-based distribution type) = 300; and
third-party investors (fixed distribution type) = 400
- Total investments made by the Fund: 1,000
A Co. (subsidiary) = 600, B Co. (Other; non-subsidiary) = 400
- Fair value of the investments as of the current fiscal year-end: 2,200 (gain on valuation: 1,200)
A Co. = 1,500 (gain on valuation: 900), B Co. = 700 (gain on valuation: 300)
- Operating expenses of the Fund excluding management/performance fees: 200
- Management fees and performance fees paid to GP/Advisory from the Fund: 250
- Distribution for the current fiscal year for fixed distribution type investors: 50
- Distribution ratio for performance-based distribution:
SBG : Third-party investors = 1 : 1
- B/S of A Co. : Asset 1,800, Debt 800
- P/L of A Co. : Net sales 900, operating expenses 500 (no other revenues or expenses incurred)

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

2) Accounting treatments and presentations of investments - 3

Flow chart of fund investments consolidation



2) Accounting treatments and presentations of investments - 4

In the segment information, valuation gain/loss from investments in subsidiaries at FVTPL in SVF is recognized in the SVF segment, and eliminated in Reconciliations.

■ Supplementary assumptions for the case study

A Co. (subsidiary) : Net sales 900, operating expense 500 (cost of sales 300 and SG&A 200);

Valuation gain from investments at FVTPL in SVF : A Co. (subsidiary) 900, B Co. (non-subsidiary) 300; and Fund operating expenses: 200 (no other revenues or expenses)

Segment	SVF	Other	Reconciliations	Consolidated
Net sales	-	900	-	900
Segment income	1,000	400	(900)	500

Financial results from A Co.

Valuation gain from A Co. (subsidiary)	+900
Valuation gain from B Co. (non-subsidiary)	+300
Operating expenses	(200)
SVF segment income	+1,000

Elimination of valuation gain from A Co. (subsidiary) in SVF

Financial results from A Co.

Since valuation gain from A Co. (subsidiary) is eliminated, operating income from SVF only includes valuation gain from B Co. (non-subsidiary) and operating expenses.

Consolidated P/L	
Net sales	900
Cost of sales	(300)
Gross profit	600
SG&A	(200)
Operating income (excluding income from SVF)	400
Operating income from SVF	100
Operating income	500
Change in third-party interests in SVF	(400)
.....	
Income before income tax	
.....	
Net income	

2) Accounting treatments and presentations of investments - 5

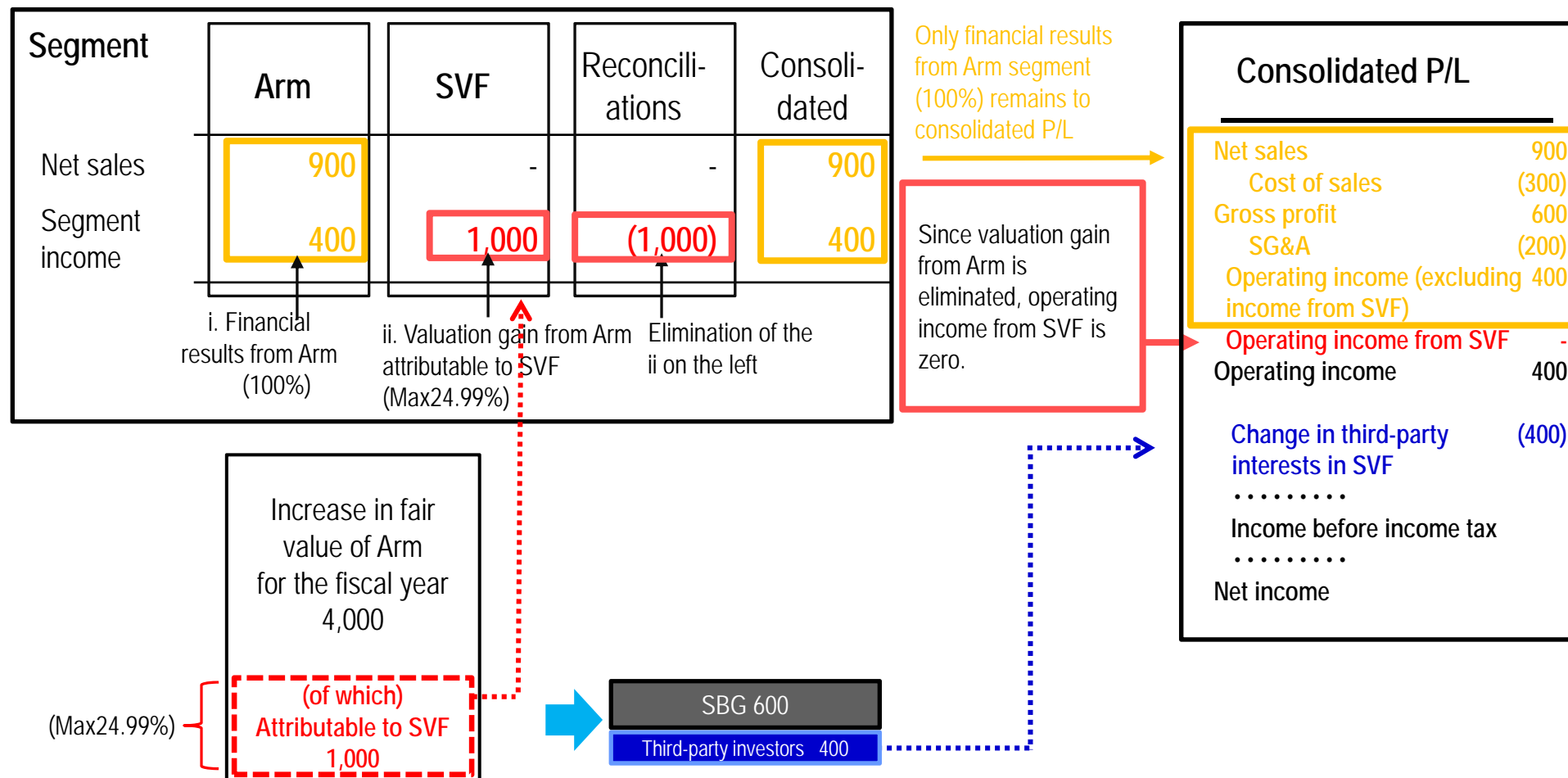
Below are the assumptions used for illustrations on the following page:

- The Fund only invests to Arm (subsidiary). There is no SBG's subsidiary other than Arm.
- Gain on valuation for entire Arm shares: 4,000
Of which, attributable to SVF (approx. 24.99%): 1,000 (4,000 x 24.99%)
- No Fund operating expense excluding management/performance fees incurred.
- Management fees and performance fees paid to GP/Advisory from the Fund: 250
- Distribution for the current fiscal year for fixed distribution type investors: 50
- Distribution ratio for performance-based distribution:
SBG : Third-party investors = 1 : 1
- Arm P/L: Net sales 900, operating expenses 500 (cost of sales 300 and SG&A 200), no other revenues or expenses incurred.

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

2) Accounting treatments and presentations of investments - 6

FVTPL valuation gain/loss of Arm shares (max 24.99% shares of total) is recognized in the SVF segment and eliminated in Reconciliations



- Appendix -

1) Definition of "investment entity" under IFRS

■ Definition of **investment entity** under IFRS

IFRS10 27 (excerpt)

An investment entity is an entity that:

- a. obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;
- b. commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- c. measures and evaluates the performance of substantially all of its investments on a fair value basis.

■ Accounting treatment for a **parent of an investment entity**

IFRS10 33 (excerpt)

A parent of an investment entity shall consolidate all entities that it controls, including those controlled through an investment entity subsidiary, unless the parent itself is an investment entity.

2) Accounting treatments and presentations of investments (non-sub subsidiary) -1

Investments by SVF are presented separately from investments made other than SVF

i. General

Securities acquired as	Accounting treatment in P/L	Presentation as asset in B/S
a. Investments from SVF	FVTPL (Operating income from SVF)	Investments from SVF accounted for using FVTPL
b. Investments from SBG entities (excl. SVF)	Income/loss on equity method investments <i>or</i> FVTPL (Other non-operating income/loss) <i>or</i> FVTOCI	Investment securities

■ Case study: Acquired B Co.'s shares at 400 during the fiscal year, recognized valuation gain from financial instruments at FVTPL at 300 during the fiscal year, book value at 700 at the fiscal-year end

Securities acquired as	BS		PL		CF	
a. Investments from SVF	Investments from SVF accounted for using FVTPL	700	Operating income from SVF	300	Payments for acquisition of investments by SVF	400
b. Investments from SBG entities (excl. SVF)	Investment securities	700	Other non-operating income/loss (FVTPL gain/loss)	300	Payments for acquisition of investments	400

2) Accounting treatments and presentations of investments (non-subsiary) -2

Presentation for bridge investments depends on whether they are determined to be transferred to SVF

ii. Bridge investments (investments acquired by SBG with an intension of recommending to SVF)

Securities acquired as	Accounting treatment in P/L	Presentation as asset in B/S
a. Investments from SVF	FVTPL (Operating income from SVF)	Investments from SVF accounted for using FVTPL
a'. Bridge investments from SBG (Transfer determined)		
a''. Bridge investments from SBG (Recommendation planned)	FVTPL (Other non-operating income/loss)	Investment securities
b. Investments form SBG entities (excl. SVF)	Income/loss on equity method investments <i>or</i> FVTPL(Other non-operating income/loss) <i>or</i> FVTOCI	

■ Case study: Acquired B Co.'s shares at 400 during the fiscal year, recognized valuation gain from financial instruments at FVTPL at 300 during the fiscal year, book value at 700 at the fiscal-year end

Securities acquired as	BS		PL		CF	
a. Investment from SVF	Investments from SVF accounted for using FVTPL	700	Operating income from SVF	300	Payments for acquisition of investments by SVF	400
a'. Bridge investments from SBG (Transfer determined)						
a''. Bridge investments from SBG (Recommendation planned)	Investment securities	700	Other non-operating income/loss (FVTPL gain/loss)	300	Payments for acquisition of investments	400
b. Investments form SBG entities (excl. SVF)						

3) List of major investments from SVF

Acquisition cost and fair value of major investees

(U.S. dollars)

Investee	Held by L.P.	Acquisition cost	Fair value <small>(as of June 30, 2017)</small>
NVIDIA	SVF L.P.	2.8B	3.9B
Guardant	AIV M1 L.P.	0.1B	0.1B
Others		0.3B	0.3B
Total		3.2B	4.3B

4) Valuation techniques for investments (shares)

Generally-accepted methods are applied

The valuation techniques for financial instruments

【In active markets for identical assets or liabilities if such prices are available】

Quoted prices

【If such prices are unavailable】

■ If prices of recent arm's-length transactions or equity financing are available,
Recent transaction price adjusting for market and company performance

■ In absence of a recent transaction

• to the extent comparable guideline public companies are available

The market approach

• when reliable cash flow projections are available

The income approach

