<u>FY2022 Earnings Announcement</u>
<u>Analyst and Investor Briefing Q&A (Summary)</u>

Date: April 28, 2023 (Fri)

<u>IMPORTANT: PLEASE READ THE FOLLOWING STATEMENT</u>

For your reference, below please find an English summary of the question and answer session at the analyst and investor briefing for the financial results for the fiscal year ended March 31, 2023, which was conducted in Japanese.

This English summary, which is intended to replace the simultaneous translation of the question and answer session previously provided, is not intended to be a direct translation of the question and answer session. As a result, there may be some differences between this English summary and the simultaneous English interpretation provided at the question and answer session.

Questioner 1

Q: [I&SS segment] Could your share of the image sensor market further expand beyond 51% in the future?

A: In the case of sensors for smartphone cameras, we believe that Sony leads the market for large-format sensors, and we are seeing increased use of our large-format 1-inch sensors thanks to Chinese OEM smartphone manufacturers. As such, we see ample potential for us to increase our market share over the medium term.

Q: [G&NS segment] Can you give us an idea of how much increased spending on game software development is likely to push up your costs in FY2023?

A: The breakdown of the expected increase in costs includes acquisition-related expenses as well as labor expenses and other expenses and development expenses. While we anticipate an increase in development expenses compared to the previous fiscal year ("year-on-year"), we expect to offset most of those by the impact of the capitalized amount of game software development costs. In accordance with the consolidation of Bungie, Inc. ("Bungie") for the whole of FY2023, we assume a 12.3 billion year-on-year increase in acquisition-related expenses to 65 billion yen. We also expect some increase in SGA expenses given that we anticipate growth in unit sales of PS5.

Questioner 2

Q: [G&NS segment] I would like to ask about the factors by which your FY2023 forecast assumes an year-on-year change in operating income. Could you elaborate as to why you expect hardware profitability to improve, what your assumptions are regarding third-party software and add-on content, and what the change in the amount of capitalization in SGA expenses will be?

A: It is our assumptions regarding foreign exchange rates and the cost of parts and materials that lead us to believe that our hardware profitability will improve. We expect software sales to be down slightly but basically on par with that of FY2022, and we are not really assuming that add-on content will decline. Our outlook for third-party software may be somewhat conservative, but we intend to give that further consideration once we see how we have done in the first quarter. We are starting in FY2023 to capitalize some of our software development expenses. Developing and offering our first-ever live game service prompted us to revisit our development processes, which led us to the decision that we should capitalize some of our software development expenses.

Q: [I&SS segment] In the Supplemental Information, it looks like you put the brakes on wafer inputs in the fourth quarter of FY2022 and the first quarter of FY2023. How do you view the current status and the likely recovery timing of the smartphone market by geography and by model?

A: The fourth quarter saw channel inventory in China decline slightly around February but rise again in March, and we think that we cannot be too optimistic. Partly because our competitors in sensors for smartphone cameras have such high inventories, we expect to see prices erode throughout FY2023 for mid-range and low-end smartphones. We also saw the high-end market start to soften slightly compared to our forecast for the fourth quarter. On the whole, we do not think that the smartphone market warrants much optimism and have the impression that we may not see a recovery until FY2024.

Questioner 3

Q: [Consolidated] What is the situation regarding consolidated investing cash flows excluding the Financial Services segment?

A: FY2022 investing cash flows were just over 300 billion yen higher than in FY2021. This was due to an increase in strategic investments such as the Bungie acquisition and in capital expenditure. In FY2023, we are exploring various opportunities, such as strategic investments, that will lead to future growth, but in this current market environment, we are exercising caution in considering valuations and the timing of execution. Our capital expenditure will be mainly focused in the I&SS segment.

Q: [Consolidated] You kept your inventories high in the third and fourth quarters of FY2022. What is your thinking on and outlook for inventory control in FY2023?

A: We expect to see the G&NS segment build up its inventories during the first half of the fiscal year to prepare for the holiday season before taking them back to a normal level as we head toward the end of our fiscal year. The ET&S segment caused concern at points during FY2022 but ultimately exercised excellent control over its inventories. It will likewise keep its inventories at an appropriate level in FY2023 based on a conservative sales plan. We think that the I&SS segment will begin in the second quarter to gradually draw down its strategic inventories of logic chips and sensors. However, because its sales will be expanding, we think that the value of its inventories will probably be greater at the end of FY2023 compared to the end of FY2022. That said, we estimate that its inventories are basically at appropriate levels at present based on the number of months of anticipated sales covered. We therefore plan to maintain these levels.

Questioner 4

Q: [Consolidated] Why have you decided to disclose adjusted OIBDA in addition to adjusted EBITDA? Do you expect some difference to arise between the two going forward?

A: Adjusted OIBDA is distinct from adjusted EBITDA in that it does not include non-operating income or expenses. We do not allocate our non-operating income and expenses across our six business segments, so adjusted OIBDA and adjusted EBITDA figures for our individual segments will be very similar. As such, you will not see them diverge from one another over time. In our current mid-range plan, we have set our total consolidated adjusted EBITDA for the three cumulative years as a major KPI. We felt that we needed to provide a view at the level of our individual segments and therefore decided to start disclosing adjusted OIBDA figures at this time. We intend to continue to disclose adjusted OIBDA and hope it will serve as one reference point in our dialogues with external stakeholders.

Q: [I&SS segment] Why does your FY2023 operating income forecast assume that the boost to operating income from higher sales will be outweighed by other negative factors?

A: While we do expect a boost from higher sales, we also expect negative impact from things like higher costs associated with ramping up mass production of new products. Our forecast therefore reflects the temporary deterioration in profitability.

Questioner 5

Q: [I&SS segment] What was your production capacity at the end of FY2022, and what utilization rates do you assume for the second quarter of FY2023 and beyond? You noted that your competitors have hefty inventories. Is there the risk that you may have to recognize valuation losses on your inventories for mid-range and low-end sensors?

A: In the fourth quarter of FY2022, we averaged 133,000 in monthly average production capacity and 116,000 in monthly average wafer inputs. Our forecast for the first quarter of FY2023 is for 137,000 in monthly average production capacity and 127,000 in monthly average wafer inputs. High-end sensors will continue to constitute the bulk of our business, and we at present do not see any risk of inventory valuation losses on mid-range or low-end sensors. We have carefully curated our strategic inventories in particular so that they consist of products for which we can anticipate stable sales, which means mainly general-purpose sensors. That said, we may struggle with the average sales prices on mid-range and low-end sensors in FY2023.

Q: [ET&S segment] Could you talk about where you see each product category heading in FY2023?

A: In digital cameras, I think we will generate growth in sales, but there may be a slight decline in operating income. In televisions, we expect a sharp decline in sales but better profitability. Following tough conditions in the second half of FY2022, we have made conservative manufacturing and sales plans for FY2023. We expect headphone sales to decline, but by focusing on high-value-added models in which Sony has a competitive edge, we expect to grow our operating income. In smartphones, we expect a sharp decline in sales but better profitability, and our focus will be on improving profitability by dealing in lower volumes and reducing our fixed costs.

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reliance on them. Investors also should not rely on any obligation of Sony to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Sony disclaims any such obligation.

The continued impact of COVID-19 and the developments relating to the situation in Ukraine and Russia could heighten the important risks and uncertainties noted above. For additional information as to risks and uncertainties, as well as other factors, that could cause actual results to differ from those discussed in the forward-looking statements, please refer to Sony's most recent Form 20-F, which is on file with the U.S. Securities and Exchange Commission.