FY2023 Corporate Strategy Meeting Q&A (Summary)

Date: May 18, 2023 (Thu)

IMPORTANT: PLEASE READ THE FOLLOWING STATEMENT

For your reference, below please find an English summary of the question and answer session at the Corporate Strategy Meeting for the fiscal year ending March 31, 2024, 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

Q1: What is the reason for the assessment of a partial spin-off of the Financial Services business after having invested 400 billion yen three years ago to make it a wholly-owned subsidiary even though you could have assumed the increase of investments in your entertainment or image sensor businesses at that time?

A1: When we made the Financial Services business a wholly-owned subsidiary, we wanted to clear up the issue of having both parent and subsidiary listings, enable faster management decision-making, and implement strategies suitable for the individual Financial Services business while also pursuing Group synergies. Since we made the business wholly owned, we have steadily strengthened our management capabilities, bolstering governance through cooperation between management teams, generating further growth in the Financial Services business, and strengthening ties between companies within the Financial Services segment and within the Sony Group as a whole. However, investment is now needed for the Financial Services business to achieve further growth and expansion in the medium to long term. In the medium term, we need to consider that our image sensor and entertainment businesses will require investments on an entirely different scale than what they have before. By implementing a partial spin-off of the Financial Services business, the business will retain the use of the Sony brand and company names, and synergies with the Sony Group will be the same, but the business will gain its own independent capacity to raise funds. We view all these undertakings as the groundwork that will enable the business to achieve sustainable growth over the medium to long term.

Today's message is about managing our businesses from a long-term perspective. Our entertainment businesses that currently generate the majority of our sales and operating income are a product of the work put in by our founders. The Financial Services business was also nurtured by our founders from a long-term perspective. We came to the decision to start the assessment of a partial spin-off of the Financial Services business following iterative discussions about what we should do to grow the business over the long term.

Q2: Will you also consider an IPO of your image sensor or electronics businesses?

A2: We view our business portfolio as a fluid entity. Businesses are impacted by such factors as the environments in which they find themselves, circumstances involving competitors, consumer trends, and the macroeconomy. We must consider our strategic options based on those conditions. At present, we are not considering taking similar actions for any business other than our Financial Services business, but we aim to continue to review and discuss our business portfolio.

Questioner 2

Q: What is your view on the Financial Services business, which has been managed by Sony's founders from a long-term perspective, becoming a different company after falling outside consolidated subsidiaries by lowering your stake to less than 20 percent?

A: It will not become a different company. The company name and brand stay the same, and its position as an important business within the Group will remain unchanged. The partial spin-off is simply the groundwork for the Financial Services business to grow even further in the future. Please understand that it will not change the company.

Questioner 3

Q: You said that the image sensor and entertainment businesses require investment on an entirely different scale than what they have before. Could you explain the reason and background for this? What is the investment strategy of these businesses going forward?

A: In the global market, we are up against many competitors operating with enormous scale. Sony's market capitalization is the size that it is after taking all six of our main business segments into consideration, but if we consider each business individually, we are lacking in scale compared to our global competitors. We are constantly mindful of this, and in order to establish our position, we need not only to continue investing but also to increase the level of our investment in keeping with our businesses' growth in scale. Over the past three years, Sony has made a total of 1.8-trillion-yen worth of strategic investments, including our investments this fiscal year, and capital expenditure mainly in the image sensor business has totaled approximately 2 trillion yen. However, we have to raise the level further as we head into our 5th Mid-Range Plan, partly because of M&A opportunities in multiple fields. We want to continue investing in the areas of content IP, DTC, and technology going forward.

Questioner 4

Q1: Short-term macroeconomic condition and image sensor market conditions for smartphones are very poor. What impact will that have on your mid-range investments?

A1: There is a huge amount of instability in the macroeconomic condition this fiscal year, and I believe this year will be marked by a mixture of hopefulness and anxiety. However, opportunities for future advances present themselves at times like these, so I want to seize such chances. I am not very optimistic about global demand for image sensors for smartphones this fiscal year. With high inventories in distribution channels in China and competitors' image sensor inventories higher than they have ever been, we need to tread carefully on capital expenditure at the moment. We will monitor macroeconomic conditions and determine the best time to go ahead with capacity increases and other investments. We will also maintain strategic inventories so as to respond to demand quickly without needing to add capacity right away.

Q2: Within the ET&S business, there is also an increasing number of product categories facing tough conditions. What will be the cornerstone of the segment going forward?

A2: Our outlook for the current fiscal year is that demand will be somewhat weak, partly because some demand was pulled forward by the pandemic. In televisions and smartphones, we do not have a bullish plan and aim to emphasize profitability. Cameras meanwhile remain strong, and since the number of people going out is increasing and pent-up demand so far is growing following the end of the pandemic, we intend to make sure we have the supply to capitalize on that. While camera demand remains firm, we plan to expand our growth axis businesses, including sports technology, life science, and B2B network services.

One of our key messages today is our focus on creativity, in both our device and content businesses. We intend to focus on input and creation when it comes to our ET&S products, too. Televisions and smartphones will remain important for us, but they will not be areas in which we intend to pursue sales volume. We will place a greater focus on the creation side with products such as our Alpha and Venice cameras, virtual production, and Hawk-Eye.

Questioner 5

Q1: How do you plan to strike a balance between helping the earth with your technologies and your own long-term growth?

A1: I will give you two examples. The first involves outer space. "EYE" is a small camera-equipped satellite outfitted with CMOS image sensors. Its purpose is essentially to give the general public the experience of looking at the earth. I think the perspective that you get from outer space is very meaningful. The earth is 12,800 kilometers in diameter, but its atmosphere is only 100 kilometers thick. An astronaut told me that when you see it from space, you realize how truly thin the atmosphere is. Also, there are no borders between nations when you look down from space. The second example involves Sony's "Road to Zero," which we unveiled in 2010. At the time, Mr. Totoki and myself were both at So-net. Sony booked a net loss of approximately 260 billion yen in the fiscal year ended March 31, 2011. I thought there was no point in having such discussions when the company's financial results were not sustainable. Now, however, I am embarrassed that I looked at it that way. I am proud of Sony for having produced its "Road to Zero" 13 years ago and want to maintain a long-term perspective as we continue to forge our future.

Q2: Some companies are abandoning the practice of releasing mid-range plans. Are there any things of which you are especially mindful or any things that you want to change regarding how you formulate your next mid-range plan or the initiatives it contains?

A2: We currently devise a mid-range plan every three years and then revisit it annually. I would like to maintain that cycle as it has become part of the fabric of our Group. Planning has been a controversial topic for some time, with some believing that overly fixating on such mid-range plans results in a loss of flexibility that keeps you from quickly adapting to external environmental changes and impacts. However, having a fundamental plan to refer to makes managing a company easier, so I do not intend to make any major changes to how we formulate our mid-range plans.

Questioner 6

Q1: In order to clear up the parent-subsidiary listing issue involving the Financial Services business, you could have reduced your ownership ratio in the business. Why did you opt initially to make the business wholly owned instead? When did the discussion regarding a partial spin-off start?

A1: We took the option of making the business wholly owned as this not only tackled the parent-subsidiary listing issue, but by increasing our stake to 100%, our intention was to achieve faster decision-making, strengthen Group ties, and bolster the foundations of the management framework. Starting in our position as majority shareholder, it was not realistic to start selling off our shares in order to reduce our stake. Selling the shares in the market would have put considerable pressure

on the share price, restricting upside, creating constant overhang pressure, and potentially limiting our actions. Then, potential buyers for a large stake would have included strategic investors or competitors, but the Financial Services business is important to the Sony Group, and we have no intention of detaching it from the group, so we took this option. We decided not to maintain a 100% stake in the business as we concluded that implementing the partial spin-off would be more appropriate from the perspective of future growth of the business.
The make-up of our portfolio of businesses is under constant debate within the company generally and among the Board of Directors, but we began examining the idea to begin the assessment of a partial spin-off in mid-February of this year. The idea was then discussed on several occasions at the board level before we decided to take the idea forward.

Questioner 7

Q1: What was the reason for highlighting India at this time?

A1: This was largely influenced by our plans to merge with Zee Entertainment during the first half of this fiscal year. In addition, India is expected to become the most populous country in the world soon, and I believe it holds great potential. N.P. Singh has worked at Sony for 24 years, and the key phrase of his speech today was "opportunity destination." In the field of entertainment in particular, there are many growth opportunities. On top of this, we see India as a land of creativity. It has been the most prolific producer of movies every year since 2005. It is also a youthful country, with half of the population aged 30 or under, and we believe it offers tremendous growth opportunities in the areas of animation and games going forward.

In India, our business began in electronics and expanded into entertainment, but we suspect the Sony brand is currently most closely associated with entertainment. India is an enormously attractive market for us as we work to expand our entertainment business. Indicators such as the country's PMI (Purchasing Manager's Index) are also at a 10-year high, and India's growth rate may well be the highest in Asia right now. So, it was also from a standpoint of capitalizing on these external environment tailwinds that we chose to talk about India today.

Q2: What is Sony's edge in AI? How do you intend to use AI within your growth fields to differentiate yourself?

A2: I believe one example of our strength in the field is that we are already using AI, including our Gran Turismo Sophy agent featured in our presentation, to enhance the gaming experience for our players. Our basic approach is to focus on creativity and be the brand chosen by creators, and we see AI as a powerful tool that can help creators do what they do. As such, we intend to continue to advance our R&D efforts in the field. We started working with machine learning long before AI became the hot topic it is today, so I believe we have an advantage in what we have built up through our efforts working on projects such as Eye AF and Flow Machines.

Questioner 8

Q1: If the purpose of the partial spin-off is to achieve greater financing power without any change in branding, company names, synergies, or positioning as the important business within your Group, why are you not exploring this same option for the I&SS business?

A1: We see our portfolio as dynamic rather than static and are constantly contemplating what the optimal portfolio would look like, whether that regards our I&SS segment or any other part of it. At present, we see no need to partially spin off our I&SS segment. We need to invest in it, but those are needs we are still capable of covering internally, and our semiconductors do generate greater synergies with other businesses of ours. Also, it has become clear that beyond their use as image sensors in smartphones, there are broader applications for our products in the realms of automotives and industrial equipment, so we want to continue to take a share of this market for ourselves.

Q2: You say that you intend to increase the number of active users in your entertainment business. Are you expecting to accelerate beyond the pace of PlayStation user growth that you have seen to date and experience a spurt that brings you close to 1 billion users globally?

A2: We think that offering first-party games that users enjoy, including live-service games, is an effective means of increasing our active user numbers. In addition, we believe that making our games available not only on our game consoles but also for PCs and eventually mobile devices will also allow us to expand our user base.

Questioner 9

Q1: I believe you had a phase in the past where you were adding new businesses to your portfolio. Do you place greater priority on adding businesses in the future or on growing the ones that you already have?

A1: We do not plan to, for example, add a seventh or eighth segment to our current portfolio of six segments. Over the near term, we intend to focus instead on developing each of our businesses and deriving solid synergies from them.

Q2: I understand that your priority in investing has been on content IP, DTC, and technology, with content IP topping that list. Do you see that changing over the next few years? Also, do you have a priority ranking in terms of business areas in which to invest?

A2: There will not be much change in our investment priorities. Content IP remains our top priority in terms of strategic investments. In terms of business areas in which to invest, various opportunities are available, so we are prioritizing games, music, and anime.
I recently saw the Super Mario movie. That is an amazing piece of IP and content-driven entertainment. It has been three decades since I played Super Mario games intensively, but I believe beloved character IP can go on living for thirty years, fifty years, or even a century. I want to invest in areas like that in order to achieve sustainable growth. In addition, Kando is inclusive rather than exclusive, which is another reason I think that it has the potential for growth. I believe that entertainment has the power to bring people together.

Questioner 10

Q1: What sort of talent do you hope to attract—not at the executive level but for managerial roles or as general employees? What sort of programs or frameworks do you have that you think are already competitive or that you would like to enhance to help you recruit and retain talent? Also, what sort of expectations do you have for the management of your operating companies when it comes to human resources?

A1: Recently I have been telling our employees that we want them to act as boundary spanners, meaning people that cross organizational or corporate boundaries to form networks of knowledge and experience. Sony's talent pool has become increasingly diverse, and we plan on even further enhancing our diversity. However, when you think about such a diverse range of people working in such a diverse range of businesses to generate new value, you realize that they cannot be confined by existing domains or boundaries. You need people that link those together. We believe that that will eventually translate into stronger businesses and the creation of more new value.
We have our Purpose and our Values, and diversity is one of our Values. Our Purpose is the starting point for our management strategy, but I believe that it also has a great impact on our employees. I talked about the separate aspects of creating and delivering Kando or expanding the Kando space in my speech. In my view, how powerful our employee body is hinges directly on whether our employees can continue to feel passion or emotional resonance as they devote so much of their time to Sony as a company. In that sense, I feel that the work we have done over the past few years to make our Purpose part of the fabric of our company and to remain rooted in our Purpose as we have considered our corporate strategies has been worthwhile.

Questioner 11

Q1: How do you plan to prepare for risks such as forthcoming game-changing developments and disruption in the game and image sensor areas in particular? Have you seen any change in the intensity of that risk in the future?

A1: In the image sensor area, we believe that we have an edge in technology, especially as regards manufacturing technology. We are not producing commoditized image sensors but rather sensors customized for particular customers with whom we share development roadmaps to some extent. As such, we have managed not to get caught up in the massive waves of the silicon cycle, which I believe has given us an edge. Our greatest focus is on maintaining and building upon our technological advantage, so we want to prepare by continuing to be mindful of it. As for games, we see ample potential for computing power to shift to the cloud over a long timeframe as the relevant infrastructure and technology evolve. We are prepared for the possibility as we already offer a cloud gaming service. I believe that what we must be most watchful of is generative AI. However, to my mind, engaging closely with creators, developing technologies that serve them, and thinking about how they should be used is one way to avoid risk.
Business leaders of the world face risks such as economic and currency fluctuations, as well as the pandemic. However, I believe that the risk that has intensified lately is geopolitical risk. I think it has especially mounted in the world of technology and in the semiconductor area in particular. I therefore want to ensure that we are more attuned than ever to such risks.

Questioner 12

Q1: You are devoting substantial resources to the ET&S segment at present, but growth there looks challenging. That said, there also seem to be opportunities over the medium and long term. What are your thoughts as you formulate your next mid-range plan?

A1: We want to focus more on the creative side of things in the ET&S segment.
The management in charge of the ET&S segment will elaborate at our Business Segment Meeting, but I believe you will hear that our intention is to focus on securing earnings at profit axis businesses, while also working to grow the businesses that we see as part of the growth axis. That said, I believe that it will take a considerable amount of time for the growth axis businesses to take the place of the profit axis businesses. However, we would not opt to neglect the growth axis businesses merely because of their smaller scale. Even if they start off small, they have ample potential to grow over the medium term, so I believe it will be important to stick with them.

---

statements about the future performance of Sony. Forward-looking statements include, but are not limited to, those statements using words such as "believe," "expect," "plans," "strategy," "prospects," "forecast," "estimate," "project," "anticipate," "aim," "intend," "seek," "may," "might," "could" or "should," and words of similar meaning in connection with a discussion of future operations, financial performance, events or conditions. These statements are based on management's assumptions, judgments and beliefs in light of the information currently available to it. Sony cautions investors that a number of important risks and uncertainties could cause actual results to differ materially from those discussed in the forward-looking statements, and, therefore, you should not place undue 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.