

SONY

Consolidated Financial Statements pursuant to the Companies Act of Japan

For the fiscal year ended March 31, 2022

(TRANSLATION)

Sony Group Corporation
TOKYO, JAPAN

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Note for readers of this English translation

This document is an English translation of the consolidated financial statements for the fiscal year ended March 31, 2022 (from April 1, 2021 to March 31, 2022) prepared in accordance with the Companies Act of Japan. The English translation is not audited and should there be any inconsistency between the translation and the original Japanese text, the original shall prevail. This document omits certain disclosures required by International Financial Reporting Standards (“IFRS”). Full consolidated financial statements for the fiscal year ended March 31, 2022 prepared in accordance with IFRS will be included in Sony’s annual report on Form 20-F, which Sony expects to file with the U.S. Securities and Exchange Commission on or around June 28, 2022.

Consolidated Statements of Financial Position

Fiscal year ended March 31

	Yen in millions	
	2021	2022
ASSETS		
Current assets:		
Cash and cash equivalents	1,786,982	2,049,636
Investments and advances in the Financial Services segment	411,982	360,673
Trade and other receivables, and contract assets	1,365,493	1,628,521
Inventories	636,668	874,007
Other financial assets	117,682	149,301
Other current assets	396,210	473,070
Total current assets	4,715,017	5,535,208
Non-current assets:		
Investments accounted for using the equity method	225,086	268,513
Investments and advances in the Financial Services segment	17,296,546	18,445,088
Property, plant and equipment	990,541	1,113,213
Right-of-use assets	358,034	413,430
Goodwill	726,109	952,895
Content assets	1,062,547	1,342,046
Other intangible assets	391,055	450,103
Deferred insurance acquisition costs	623,986	676,526
Deferred tax assets	215,669	298,589
Other financial assets	695,764	696,306
Other non-current assets	207,489	289,050
Total non-current assets	22,792,826	24,945,759
Total assets	27,507,843	30,480,967

(Continued on the following page.)

Consolidated Statements of Financial Position (Continued)

	Yen in millions	
	2021	2022
LIABILITIES		
Current liabilities:		
Short-term borrowings	1,201,747	1,976,553
Current portion of long-term debt	205,406	171,409
Trade and other payables	1,596,563	1,843,242
Deposits from customers in the banking business	2,682,156	2,886,361
Income taxes payables	84,431	106,092
Participation and residual liabilities in the Pictures segment	161,433	190,162
Other financial liabilities	54,341	97,843
Other current liabilities	1,367,527	1,488,488
Total current liabilities	7,353,604	8,760,150
Non-current liabilities:		
Long-term debt	1,053,636	1,203,646
Defined benefit liabilities	267,222	254,548
Deferred tax liabilities	816,587	696,492
Future insurance policy benefits and other	6,614,585	7,039,034
Policyholders' account in the life insurance business	4,328,894	4,791,295
Participation and residual liabilities in the Pictures segment	116,537	220,113
Other financial liabilities	139,417	211,959
Other non-current liabilities	93,022	106,481
Total non-current liabilities	13,429,900	14,523,568
Total liabilities	20,783,504	23,283,718
EQUITY		
Sony Group Corporation's stockholders' equity:		
Common stock	880,214	880,365
Additional paid-in capital	1,489,597	1,461,053
Retained earnings	2,914,503	3,760,763
Accumulated other comprehensive income	1,520,257	1,222,332
Treasury stock, at cost	(124,228)	(180,042)
Equity attributable to Sony Group Corporation's stockholders	6,680,343	7,144,471
Noncontrolling interests	43,996	52,778
Total equity	6,724,339	7,197,249
Total liabilities and equity	27,507,843	30,480,967

* The figures for the previous fiscal year (as of March 31, 2021) have been reclassified into International Financial Reporting Standards ("IFRS") classification.

Consolidated Statements of Income

Fiscal year ended March 31

	Yen in millions	
	2021	2022
Sales and financial services revenue:		
Sales	7,333,670	8,396,702
Financial services revenue	1,664,991	1,524,811
Total sales and financial services revenue	8,998,661	9,921,513
Costs and expenses:		
Cost of sales	5,065,879	5,845,804
Selling, general and administrative	1,473,154	1,588,473
Financial services expenses	1,501,674	1,374,037
Other operating (income) expense, net	14,250	(65,494)
Total costs and expenses	8,054,957	8,742,820
Share of profit (loss) of investments accounted for using the equity method	11,551	23,646
Operating income	955,255	1,202,339
Financial income	83,792	19,304
Financial expenses	41,082	104,140
Income before income taxes	997,965	1,117,503
Income taxes	(45,931)	229,097
Net income	1,043,896	888,406
Net income attributable to		
Sony Group Corporation's stockholders	1,029,610	882,178
Noncontrolling interests	14,286	6,228

* The figures for the previous fiscal year (the fiscal year ended March 31, 2021) have been reclassified into IFRS classification.

Consolidated Statements of Changes in Stockholders' Equity

	Yen in millions							
	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Treasury stock, at cost	Sony Group Corporation's stockholders' equity	Noncontrolling interests	Total equity
Balance at April 1, 2020	880,214	1,297,554	1,949,697	979,476	(232,503)	4,874,438	1,120,038	5,994,476
Comprehensive income:								
Net income			1,029,610			1,029,610	14,286	1,043,896
Other comprehensive income, net of tax				89,018		89,018	(25,135)	63,883
Total comprehensive income			1,029,610	89,018		1,118,628	(10,849)	1,107,779
Transfer to retained earnings			5,472	(5,472)		—		—
Transactions with stockholders and other:								
Exercise of stock acquisition rights		(354)	(735)		18,074	16,985		16,985
Conversion of convertible bonds		(3,671)	(8,198)		89,402	77,533		77,533
Stock-based compensation		1,577				1,577		1,577
Dividends declared			(61,343)			(61,343)	(12,996)	(74,339)
Purchase of treasury stock					(366)	(366)		(366)
Reissuance of treasury stock		354			1,165	1,519		1,519
Transactions with noncontrolling interests shareholders and other		194,137		457,235		651,372	(1,052,197)	(400,825)
Balance at March 31, 2021	880,214	1,489,597	2,914,503	1,520,257	(124,228)	6,680,343	43,996	6,724,339

The figures for the previous fiscal year (the fiscal year ended March 31, 2021) have been reclassified into IFRS classification.

	Yen in millions							
	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Treasury stock, at cost	Sony Group Corporation's stockholders' equity	Noncontrolling interests	Total equity
Balance at April 1, 2021	880,214	1,489,597	2,914,503	1,520,257	(124,228)	6,680,343	43,996	6,724,339
Comprehensive income:								
Net income			882,178			882,178	6,228	888,406
Other comprehensive income, net of tax				(258,500)		(258,500)	2,498	(256,002)
Total comprehensive income			882,178	(258,500)		623,678	8,726	632,404
Transfer to retained earnings			39,425	(39,425)		—		—
Transactions with stockholders and other:								
Issuance of new shares	151	151				302		302
Exercise of stock acquisition rights		547			12,785	13,332		13,332
Conversion of convertible bonds		(2,805)	(958)		18,278	14,515		14,515
Stock-based compensation		6,643				6,643		6,643
Dividends declared			(74,385)			(74,385)	(4,955)	(79,340)
Purchase of treasury stock					(88,624)	(88,624)		(88,624)
Reissuance of treasury stock		1,544			1,747	3,291		3,291
Transactions with noncontrolling interests shareholders and other		(34,624)				(34,624)	5,011	(29,613)
Balance at March 31, 2022	880,365	1,461,053	3,760,763	1,222,332	(180,042)	7,144,471	52,778	7,197,249

Notes to Consolidated Financial Statements

Sony Group Corporation and its consolidated subsidiaries are collectively referred to as “Sony” or “Sony Group.”

1. *Scope of consolidation and equity method investments*

As of March 31, 2022, Sony had 1,488 consolidated subsidiaries (including structured entities). Sony has applied the equity accounting method for 139 associates and joint ventures.

2. *Significant accounting policies*

(1) **Basis of consolidated financial statements**

Sony has adopted IFRS from the fiscal year ended March 31, 2022. Sony’s Consolidated Financial Statements are prepared in accordance with IFRS pursuant to Article 120, Paragraph 1 of the Regulation on Corporate Accounting. In accordance with the second sentence of the same paragraph, certain disclosures required by IFRS have been omitted.

(2) **Foreign currency translation**

Foreign currency transactions are translated at the exchange rates prevailing at the transaction date or rates that approximate such rates. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the exchange rate at the end of the period. Foreign exchange gains and losses resulting from translation and settlement are generally recognized in profit or loss. They are deferred in other comprehensive income if they relate to qualifying cash flow hedges.

Assets and liabilities of foreign operations such as overseas subsidiaries and associates are translated using the exchange rates at the end of the period, and revenue and expense items are translated using the average exchange rates for the period unless the exchange rates fluctuate significantly. Exchange differences arising from the translation are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of exchange differences relating to that foreign operation is reclassified to profit or loss.

(3) **Financial instruments**

Sony recognizes a financial instrument as a financial asset or a financial liability when Sony becomes party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Except for financial assets and financial liabilities measured at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability are added to the fair value of financial assets or subtracted from the fair value of financial liabilities at initial recognition.

(i) *Non-derivative financial assets*

a. Classification and measurement

Non-derivative financial assets held by Sony are classified as financial assets measured at amortized cost, debt instruments measured at fair value through other comprehensive income, equity instruments measured at fair value through other comprehensive income or financial assets measured at fair value through profit or loss.

Financial assets measured at amortized cost

Sony classifies a financial asset as measured at amortized cost if the financial asset is held within a business model whose objective is to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The financial asset is measured at amortized cost by using the effective interest method after initial recognition. On derecognition of a financial asset measured at amortized cost, the difference between the carrying amount and the consideration received or receivable is recognized in profit or loss.

Debt instruments measured at fair value through other comprehensive income

A debt instrument is classified as a financial asset measured at fair value through other comprehensive income if the debt instrument is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial asset and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Changes in the fair value of the financial asset after initial recognition, except for impairment gains or losses and foreign exchange gains or losses, are recognized in other comprehensive income. Interest income from these financial assets is recognized in profit or loss using the effective interest method. On derecognition of a debt instrument measured at fair value through other comprehensive income, the cumulative amount previously recognized in other comprehensive income is reclassified to profit or loss.

In the life insurance business, the financial assets are held mainly from the perspective of asset-liability management. The objective of holding financial assets in the life insurance business is to match the interest rate sensitivity (duration) of financial assets and insurance contract liabilities (which mainly consist of future insurance policy benefits and the policyholders' account in the life insurance business) as much as possible, in order to ensure sufficient cash flows are available to settle insurance claims when they come due. Sony manages these assets as one portfolio, based on the overall objective of managing duration and liquidity needs in a capital-efficient manner. While some assets within the portfolio may be held for a longer period of time, Sony considers, because of its overall objective for these assets, that all the financial assets are held within one business model whose objective is achieved by both collecting cash flows and selling financial assets.

Equity instruments measured at fair value through other comprehensive income

For investments in equity instruments which are not held for trading, Sony may make an irrevocable election at initial recognition to present subsequent changes in fair value of the investments in other comprehensive income.

These financial assets are measured at fair value and subsequent changes in the fair value are recognized in other comprehensive income. Dividends from financial assets are recognized in profit or loss, and the cumulative amount recognized in other comprehensive income is transferred to retained earnings upon derecognition.

Financial assets measured at fair value through profit or loss

Financial assets other than those measured at amortized cost or fair value through other comprehensive income are classified as financial assets measured at fair value through profit or loss. Financial assets measured at fair value through profit or loss include financial assets held for trading.

In the life insurance business, investments held for variable annuities and variable life insurance contracts mainly consist of equity securities, debt securities and investment funds, which are measured at fair value through profit or loss. For certain financial assets that would not normally be measured at fair value through profit or loss, Sony may, at initial recognition, choose the irrevocable option to measure such financial assets at fair value through profit or loss in order to eliminate or significantly reduce an accounting mismatch. Sony has made the irrevocable election for some of the fixed-rate debt securities held by a subsidiary in the banking business as mentioned above. In relation to such debt securities, Sony utilizes derivatives to hedge the risk arising from the changes in the fair value of the debt securities due to unfavorable fluctuations of interest rates. Thus, this election is made to mitigate accounting mismatches derived from the changes in the fair value of the debt securities and derivatives used as hedging instruments by recognizing gains and losses from the changes in the fair value of the debt securities in profit or loss.

b. Derecognition

Sony derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or Sony transfers the contractual rights to receive the cash flows of the financial asset and substantially transfers all of the risks and rewards of the financial asset.

c. Impairment

Sony estimates expected credit losses and recognizes loss allowances for financial assets measured at amortized cost and debt instruments measured at fair value through other comprehensive income. At each reporting date, Sony measures the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition. If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, Sony measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses. In assessing whether the credit risk has increased significantly or not, Sony uses the change in the risk of a default occurring over the expected life of the financial instrument and estimates expected credit losses by using the method which reflects the past loss rate and other reasonable and supportable forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Sony measures the expected credit losses of a financial asset in a way that reflects an unbiased and probability-weighted amount incorporating the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

However, for trade and other receivables, and contract assets including non-current other receivables in the Pictures segment, the loss allowance is measured at an amount equal to lifetime expected credit losses irrespective of the change of credit risk on a collective basis or an individual basis incorporating factors such as the past-due status and the attributes of the counterparties.

Sony determines a financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. The criteria that Sony uses to determine that a financial asset is credit-impaired include a default or delinquency of more than 90 days past due in interest or principal payments.

Sony writes off the gross carrying amount of a financial asset when it cannot reasonably expect to recover all or part of the asset.

(ii) *Non-derivative financial liabilities*

Sony classifies non-derivative financial liabilities as either financial liabilities subsequently measured at amortized cost by using the effective interest method or financial liabilities measured at fair value through profit or loss.

Sony derecognizes a financial liability when it is extinguished, meaning when the obligation specified in the contract is discharged, cancelled or expired.

(iii) *Derivative financial instruments and hedge accounting*

All derivatives are recognized as either assets or liabilities in the consolidated statements of financial position at fair value. Changes in the fair value of derivative financial instruments are either recognized periodically through profit or loss or other comprehensive income, depending on whether the derivative financial instrument qualifies as a hedge and the derivative is being used to hedge changes in fair value or cash flows.

Derivative financial instruments held by Sony are accounted for as described below.

Cash flow hedges

Changes in the fair value of derivatives that are designated and determined to be effective as cash flow hedges for forecasted transactions or exposures associated with recognized assets or liabilities are initially recorded in other comprehensive income and reclassified to profit or loss when the hedged transaction affects profit or loss. Changes in the fair value of the ineffective portion are immediately recognized in profit or loss.

Derivatives not designated as hedges

Changes in the fair value of derivatives not designated as hedges are immediately recognized in profit or loss.

Assessment of hedge effectiveness

When applying hedge accounting, Sony formally documents all hedging relationships between the derivatives designated as hedges and the hedged items, as well as its risk management objectives and strategies for undertaking various hedging activities. Sony links all hedges that are designated as cash flow hedges to specific assets or liabilities in the consolidated statements of financial position or to the specific forecasted transactions. Sony also assesses, both at the inception of the hedge and on an ongoing basis, whether the derivatives that are designated as hedges have an economic relationship with the hedged item in offsetting changes in fair value or cash flows of hedged items. The effect of credit risk does not dominate the value changes that result from the underlying economic relationship. In addition, the hedge ratio of the hedging relationship is designed to be the same as that resulting from the quantity of the hedged item that Sony actually hedges and the quantity of the hedging instrument that Sony actually uses to hedge that quantity of the hedged item. When it is determined that a derivative no longer has an economic relationship with the hedged item, Sony discontinues hedge accounting.

(4) Valuation of inventories

Inventories are measured at the lower of cost or net realizable value. The cost of inventories is determined on the “weighted average cost” basis. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(5) Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their useful lives (depreciation period ranging from 2 to 50 years for buildings and from 2 to 10 years for machinery and equipment). Sony reviews the residual values and the useful lives at each fiscal year-end, or sooner if circumstances require.

(6) Amortization methods for intangible assets including content assets

Intangible assets with finite useful lives mainly consist of patent rights, know-how and license agreements, customer relationships, trademarks, software, music catalogs, artist contracts, television carriage contracts (broadcasting agreements), film costs and broadcasting rights. Patent rights, know-how and license agreements, trademarks and software are generally amortized on a straight-line basis over 3 to 10 years. Customer relationships, music catalogs, artist contracts and television carriage contracts (broadcasting agreements) are generally amortized on a straight-line basis, over 10 to 44 years. Film costs are amortized using an ultimate revenue method based on the ratio of current period actual revenues to the estimated remaining total revenues. Sony considers that amortization pursuant to the ultimate revenue method reflects the rate at which it plans to consume the future economic benefits related to the asset, and there is a high correlation between revenue and the consumption of the economic benefits embodied in the intangible assets. Broadcasting rights are generally amortized based on estimated usage or on a straight-line basis over the useful life.

(7) Business combinations

Sony recognizes identifiable assets acquired and the liabilities assumed of an acquiree at their fair values at the acquisition date with limited exceptions. Sony recognizes goodwill when the aggregate of the consideration transferred in a business combination, the amount of any non-controlling interests in the acquiree and the fair value of Sony’s previously held equity interest in the acquiree exceeds the net amount of the identifiable assets and liabilities of the acquiree at the acquisition date. If the aggregate above is less than the net amount of identifiable assets and liabilities, the difference is recognized as a gain. The consideration transferred is calculated as the sum of the fair values of the assets transferred, liabilities assumed and equity interest issued. Non-controlling interests are measured either at fair value or based on the non-controlling interests’ proportionate share of the acquiree’s net identifiable assets for each business combination transaction. Acquisition-related costs are recognized as expenses in the period they are incurred.

(8) Impairment of non-financial assets

Sony reviews the recoverability of its non-financial assets, except for inventories, contract costs and deferred tax assets, whenever there is any indication that an asset or a cash-generating unit (“CGU”) may be impaired. In addition, an annual impairment test for goodwill, intangible assets with indefinite useful lives or intangible assets not yet available for use is performed during the fourth quarter of the fiscal year for each CGU or group of CGUs to which the carrying amount of these assets is allocated.

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 group of assets. Goodwill is allocated to each CGU or group of CGUs that is expected to benefit from the synergies of a business combination. A CGU or group of CGUs to which goodwill is allocated is not larger than an operating segment.

The recoverable amount of an asset, a CGU or group of CGUs is the higher of its value in use and fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets. This approach uses significant estimates and assumptions, including estimated future cash flows, the timing of such cash flows, discount rates reflecting the risk inherent in future cash flows, perpetual growth rates, earnings or revenue multiples, the determination of appropriate comparable entities and the determination of whether a premium or discount should be applied to comparables. The assumptions used for estimated future cash flows and the timing of such cash flows for each CGU are generally based on the three-year mid-range plan (“MRP”) and take into account such factors as historical experience, market and industry information, and current and forecasted economic conditions. Perpetual growth rates are generally utilized to determine a terminal value and are generally set after the three-year forecasted period for the MRP.

If the recoverable amount is determined to be less than the carrying amount of a CGU or group of CGUs, an impairment loss would be recognized equal to the amount by which the carrying amount exceeds the recoverable amount. Such impairment losses are recognized first reducing the carrying amount of any allocated goodwill and then are allocated to the other assets of the CGU on a pro rata basis of the carrying amount of each asset in the CGU. Impairment losses except for content assets are included in other operating (income) expense, net, and impairment losses for content assets are included in cost of sales in the consolidated statements of income.

Assets other than goodwill are reviewed to assess whether there is any indication that an impairment loss recognized in prior periods may no longer exist or may have decreased. If any such indication exists, the recoverable amount of the asset is determined and a reversal of an impairment loss is recognized when the recoverable amount of the asset exceeds the carrying amount. Any increased carrying amount of an asset attributable to the reversal of an impairment loss does not exceed the carrying amount, net of depreciation and amortization, which would have been determined if an impairment loss had never been recognized for the asset in prior periods.

(9) Provisions

Provisions are recognized when Sony has present legal or constructive obligations as a result of past events, it is probable that outflows of resources embodying economic benefits will be required to settle the obligations, and reliable estimates can be made of the amount of obligations.

Provisions mainly consist of participation and residual liabilities in the Pictures segment and product warranties.

(i) *Participation and residual liabilities in the Pictures segment*

Parties involved in the production or exploitation of film and television content may be compensated in part by contingent payments based on the financial results of a film or television show pursuant to contractual formulas (participations) and by contingent amounts due under provisions of collective bargaining agreements (residuals). Such parties are collectively referred to as participants, and such costs are referred to collectively as participation and residual costs. Participation and residual costs may be given to creative talent, such as actors or writers, investors or to entities from whom distribution rights are licensed.

Participation and residual liabilities are accrued based on the ratio of current period actual revenues to the estimated remaining total revenues. The participation and residual liabilities are expected to be relieved when the contingent payments are fixed and paid. The majority of the non-current portion of participation and residual liabilities is expected to be paid within the next 10 years.

Sony also enters into arrangements with other studios to jointly produce and distribute films, under which each partner is responsible for the distribution of the film in specific territories or distribution windows. The partners' shares in the profits and losses of the films under these arrangements are included within participation and residual costs.

(ii) Product warranties

Sony issues contractual product warranties under which it generally guarantees the performance of products delivered and services rendered for a certain period or term. Product warranties are calculated based upon product sales, estimated probability of failure and estimated cost per claim. The estimates and forecasts used in the calculation of product warranties are reviewed on a periodic basis.

(10) Revenue recognition

Sony recognizes revenue in an amount that reflects the consideration Sony expects in exchange for satisfying performance obligations to transfer the goods or services promised in contracts with customers. This is in accordance with the following steps:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when (or as) Sony satisfies a performance obligation.

Sony owns a variety of intellectual property throughout its segments and recognizes revenue through the licensing of such intellectual property. Sony licenses rights to use its intellectual property and rights to access its intellectual property. When Sony grants a customer the right to use Sony's intellectual property, Sony satisfies its performance obligation at the point in time when the customer obtains control and is entitled to benefit from the license. When Sony grants a customer the right to access Sony's intellectual property, Sony satisfies its performance obligation over the license period.

Performance obligations in contracts for the Electronics Products & Solutions ("EP&S") and Imaging & Sensing Solutions ("I&SS") segments are primarily to deliver various kinds of electronic equipment, instruments and devices to customers. Revenues from these performance obligations are generally recognized when a promised good is delivered to a customer. However, if the sales contract contains a customer acceptance provision, then revenues are recognized when the customer accepts the promised good or when a deemed acceptance occurs by the lapse of time. Revenues are also recognized over time, primarily from the provision of internet broadband network services to subscribers over the subscription period. Revenues are recognized net of anticipated returns and sales incentives.

Within the Game & Network Services ("G&NS") segment, revenues from hardware, peripherals and software discs are recognized when performance obligations are satisfied by transferring control to the retailer/distributor, net of anticipated returns, sales incentives and cooperative advertising obligations. Revenues from platform licensing to publishers are recognized when physical software discs are delivered. Revenues from digital game content, which is a right to use Sony's intellectual property, are recognized when the digital content is made available for use by the licensee via an online platform, net of anticipated sales incentives and credit card chargebacks. Revenues from digital game content involving multiple performance obligations, such as obligations to make content available on future dates, are allocated to each performance obligation based on the relative standalone selling prices that are observable in the market or Sony's best estimate. Revenues from subscription fees for digital subscription services are recognized over the subscription period.

Within the Music segment, Sony licenses intellectual property that transfer to a customer either a right to use Sony's intellectual property, or a right to access Sony's intellectual property. Revenues are recognized when the customer has the right to use or access the intellectual property and obtains control of the use or access of that license. Digital revenues include revenues from contracts with digital streaming services typically recognized as a single performance obligation, which is ongoing access to intellectual property in an evolving library of content over the contract term, predicated on: (1) the business practice and contractual ability to remove specific content without a requirement to replace the content and without impact to minimum royalty guarantees and (2) the contracts not containing a specific listing of content subject to the license. For these contracts, revenues are recognized based on sales and usage royalties, except where there is a minimum royalty guarantee that is not expected to be recouped, or a fixed fee, which is recognized on a straight-line basis over the term of the contract. Revenues from the sale of physical products such as CDs, net of anticipated returns and sales incentives, are recognized when delivery has occurred and the product is available for sale to the public.

Within the Pictures segment, revenues from the theatrical exhibition of motion pictures are recognized as the customer exhibits the film. Revenues from the licensing of motion picture and television programming for pay and free television exhibition and other markets are recognized when the product is available for use by the licensee. Revenues for motion picture and television program licensing arrangements involving multiple performance obligations, for example a fee for multiple titles, territories or availability dates, are allocated based on the relative standalone selling price of each performance obligation using Sony's best estimate based on available information such as market conditions and internal pricing guidelines. Each individual motion picture or television programming product delivered generally represents a separate performance obligation. Licensing revenue associated with certain renewals or extensions of existing agreements for motion pictures and television programming is recognized when the licensee can use and benefit from the content under the renewal or extension. Licensing revenue associated with minimum guarantees for a right to access Sony's intellectual property is recognized ratably over the license term. For home entertainment distribution, revenues from the sale of physical products such as DVDs and Blu-ray Disc™, net of anticipated returns and sales incentives, are recognized when delivery has occurred and the product is available for sale to the public. Revenues from electronic sell-through and video-on-demand are recognized when the product is made available for viewing via digital distribution platforms. Revenues from the sale of broadcast advertising are recognized when the advertisement is aired, and the performance obligation in these arrangements is the delivery of advertising spots and may include a guaranteed amount of impressions. When a guarantee for a number of impressions is not achieved, revenues are not recognized until additional advertising spots are delivered to provide the guaranteed impressions. Revenues from subscription fees received by television and digital networks are recognized when the service is provided. The performance obligation under network subscription arrangements is a right to use Sony's intellectual property that is satisfied as programming is provided over the term of the arrangement.

Within the Financial Services segment, traditional life insurance policies that the life insurance subsidiary underwrites, most of which are categorized as long-duration contracts, mainly consist of whole life, term life and accident and health insurance contracts. Premiums from these policies are reported as revenue when due from policyholders. Amounts received as payment for non-traditional contracts such as interest sensitive whole life contracts, individual annuity contracts and other contracts without life contingencies are recognized in policyholders' account in the life insurance business. Revenues from these contracts are comprised of fees earned for administrative and contract-holder services, which are recognized over the period of the contracts, and included in financial services revenue. Property and casualty insurance policies that the non-life insurance subsidiary underwrites are primarily automotive insurance contracts which are categorized as short-duration contracts. Premiums from these policies are reported as revenue over the period of the contract in proportion to the amount of insurance protection provided.

Revenue is recognized net of any taxes collected from customers and subsequently remitted to governmental authorities.

3. *Significant accounting estimates*

The preparation of the consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies, the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and assumptions. Sony reviews estimates and assumptions on a regular basis. In addition, the timing and extent to which the spread of COVID-19 may negatively impact Sony's business will depend on future developments, which are uncertain. This uncertainty could result in greater variability in accounting estimates and assumptions. Information about judgments and estimates that have been made in the process of applying accounting policies and accounting estimates and assumptions that have significant effects on the amounts reported in the consolidated financial statements are as follows:

- Fair value measurement of financial instruments (6. Financial instruments)
- Impairment of property, plant and equipment, right of use assets, goodwill and intangible assets (2. Significant accounting policies (7) Business combinations and (8) Impairment of non-financial assets)

Property, plant and equipment	1,113,213 million yen
Right of use assets	413,430 million yen
Goodwill	952,895 million yen
Other intangible assets	1,792,149 million yen

- Measurement of future insurance policy benefits and policyholders' account in the life insurance business
Liabilities for future insurance policy benefits are primarily comprised of the present value of estimated future payments to policyholders. These liabilities are computed by the net level premium method based upon the assumptions as to future investment yield, morbidity rates, mortality rates, lapse rates and other factors. These assumptions are reviewed on a periodic basis. Liabilities for policyholders' account in the life insurance business represent the contract value that has accrued to the benefit of the policyholders as of the end of the reporting period. This liability is generally equal to the accumulated account deposits, plus interest credited, less policyholder withdrawals and other charges assessed against the account balances.

Future insurance policy benefits and other*	7,192,040 million yen
Policyholders' account in the life insurance business	4,791,295 million yen

* The current portion of future insurance policy benefits and other is included in other current liabilities in the consolidated statements of financial position.

- Measurement of film costs and participation and residual liabilities in the Pictures segment (2. Significant accounting policies (5) Amortization methods for intangible assets including content assets and (8) Provisions)

Film costs included in content assets	453,477 million yen
Participation and residual liabilities in the Pictures segment	410,275 million yen

- Recoverability of deferred tax assets

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the assets can be utilized. Accordingly, the need to adjust deferred tax assets is assessed periodically with available evidence related to the realization of the deferred tax assets. The judgment related to this assessment considers the nature, frequency and severity of current and cumulative losses on an individual tax jurisdiction basis, forecasts of future profitability after consideration of uncertain tax positions, excess of appreciated asset value over the tax basis of net assets, the duration of statutory carryforward periods, the past utilization of net operating loss carryforwards prior to expiration, as well as prudent and feasible tax planning strategies which would be employed by Sony to prevent net operating loss and tax credit carryforwards from expiring unutilized.

Deferred tax assets	298,589 million yen
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4. Notes to Consolidated Statement of Financial Position

(1) Assets pledged as collateral and debts subject to collateral

(i) Assets pledged as collateral

Securities	1,490,663 million yen
Housing loans in the banking business	782,175 million yen

(ii) Debts subject to collateral

Short-term borrowings	1,660,540 million yen
Long-term debt including the current portion	373,886 million yen

In addition to the above, certain subsidiaries in the Financial Services segment entered into securities-for-securities lending transactions, pursuant to which they pledged securities with a value of 521,912 million yen and received securities with a value of 530,589 million yen as collateral.

Furthermore, certain subsidiaries in the Financial Services segment pledged securities with a value of 21,271 million yen as guarantees for transactions such as domestic exchange settlements and derivatives.

Assets pledged as collateral are included in the consolidated statements of financial position as "Investments and advances in the Financial Services segment," current and non-current.

(2) Allowance for credit losses directly deducted from assets

Trade and other receivables, and contract assets	30,675 million yen
Investments and advances in the Financial Services segment (Non-current)	575 million yen

(3) Accumulated depreciation and impairment losses of assets

Property, plant and equipment 1,897,657 million yen

(4) Guarantee obligations

The guarantees mainly include bank loans of affiliated companies.

Guarantee obligations 501 million yen

5. Notes to Consolidated Statement of Changes in Stockholders' Equity

(1) Type and total number of shares issued as of March 31, 2022

Common stock 1,261,081,781 shares

(2) Matters related to dividends

(i) Amount of dividends paid:

<u>(Resolution)</u>	<u>Type of shares</u>	<u>Total amount of dividends (Yen in millions)</u>	<u>Dividends per share (Yen)</u>	<u>Record date</u>	<u>Effective date</u>
Board of Directors' meeting held on April 28, 2021	Common stock	37,177	30.00	March 31, 2021	May 27, 2021
Board of Directors' meeting held on October 28, 2021	Common stock	37,208	30.00	September 30, 2021	December 1, 2021

(ii) Dividends whose record date falls in the fiscal year ended March 31, 2022 and whose effective date falls in the fiscal year ending March 31, 2023 are as follows:

<u>(Resolution)</u>	<u>Type of shares</u>	<u>Total amount of dividends (Yen in millions)</u>	<u>Source of dividends</u>	<u>Dividends per share (Yen)</u>	<u>Record date</u>	<u>Effective date</u>
Board of Directors' meeting held on May 10, 2022	Common stock	43,295	Retained earnings	35.00	March 31, 2022	June 3, 2022

(3) Type and number of shares subject to the stock acquisition rights (these exercise periods have commenced) at the end of the current fiscal year

Common stock 7,044,700 shares

6. Notes to Financial Instruments

(1) Matters related to the status of financial instruments

The funds required for Sony's business excluding the Financial Services segment are raised from the financial and capital markets and financial institutions through corporate bonds and borrowings. Surplus funds are managed with highly secure financial assets. Sony has entered into derivative contracts such as foreign exchange contracts, currency option contracts, and interest rate swap contracts, which are primarily aimed at reducing the risk of foreign exchange fluctuations and cash flow fluctuations, and does not engage in speculative transactions. In the Financial Services segment, Sony invests in securities and loans to secure stable investment returns, with premium income and customer deposits in the banking business as the main sources of funds. Since these financial assets and liabilities are exposed to the risk of fluctuations in interest rates, stock prices, foreign exchange rates, comprehensive management of assets and liabilities is performed to maintain an appropriate balance.

(2) Matters related to the fair value of financial instruments

	Yen in millions		
	Amounts recognized in the consolidated statements of financial position	Fair value	Difference
Assets:			
Securities *1,2	16,263,061	16,272,582	9,521
Derivative assets *2	61,023	61,023	—
Housing loans in the banking business *1	2,752,985	2,837,349	84,364
Liabilities:			
Long-term debt including the current portion	909,706	902,122	(7,584)
Derivative liabilities *3	72,120	72,120	—

*1 Included in investments and advances in the Financial Services segment in the consolidated statements of financial position.

*2 Included in other financial assets in the consolidated statements of financial position.

*3 Included in other financial liabilities in the consolidated statements of financial position.

The table above does not include cash and cash equivalents, and financial instruments that are not measured at fair value in the consolidated statements of financial position whose carrying amounts approximate their fair values mainly due to their short-term nature.

(3) Matters related to the fair value by fair value hierarchy level of financial instruments

Each fair value measurement is reported in one of three levels, which is determined by the lowest level input that is significant to the fair value measurement in its entirety.

Level 1 — Inputs are unadjusted quoted prices for identical assets and liabilities in active markets.

Level 2 — Inputs are based on observable inputs other than Level 1 prices.

Level 3 — One or more significant inputs are unobservable.

(i) *Financial instruments recognized in the consolidated statements of financial position at fair value*

	Yen in millions			
	Fair value			
	Level 1	Level 2	Level 3	Total
Securities	2,041,980	13,383,183	479,660	15,904,823
Derivative assets	—	56,999	4,024	61,023
Derivative liabilities	11,903	60,217	—	72,120

The valuation techniques used by Sony to measure financial instruments at fair value, including an indication of the level in the fair value hierarchy in which each instrument is generally classified, are as follows.

Securities

Where quoted prices of financial instruments are available in an active market, these instruments are classified in Level 1 of the fair value hierarchy. Level 1 financial instruments include exchange-traded equity instruments. If quoted market prices are not available for the specific financial instruments or the market is inactive, then fair values are estimated by using pricing models, quoted prices of financial instruments with similar characteristics or discounted cash flows and mainly classified in Level 2 of the fair value hierarchy. Level 2 financial instruments include debt instruments with quoted prices that are not traded as actively as exchange-traded instruments, such as the majority of government bonds and corporate bonds. In certain cases where there is limited activity or less transparency around inputs to the valuation, these instruments are classified within Level 3 of the fair value hierarchy. Level 3 financial instruments primarily include certain private equity investments, investment funds, securitized products which are not classified within Level 1 or Level 2 and domestic and foreign corporate bonds for which quoted prices are not available in a market and where there is less transparency around inputs. Sony estimates the fair value for private equity investments primarily by using comparable company analysis. The price book-value ratio and price earnings ratio of comparable companies are used as significant unobservable inputs in the fair value measurement of equity securities classified as Level 3. The fair value increases (decreases) as price book-value ratio and price earnings ratio of comparable companies rise (decline). Sony estimates the fair value for certain investment funds by using the net asset value. Sony estimates the fair value for securitized products and domestic and foreign corporate bonds for which quoted prices are not available in a market and where there is less transparency around inputs by using third-party information such as indicative quotes from dealers without adjustment or discounted cash flows.

Derivatives

Exchange-traded derivatives valued using quoted prices are classified within Level 1 of the fair value hierarchy. However, few classes of derivative contracts are listed on an exchange; thus, the majority of Sony's derivative positions are valued using internally developed models that use as their basis readily observable market parameters, meaning parameters that are actively quoted and can be validated to external sources, including pricing services.

(ii) Financial instruments that are not recognized in the consolidated statements of financial position at fair value

	Yen in millions			
	Fair value			
	Level 1	Level 2	Level 3	Total
Securities	—	97,474	270,285	367,759
Housing loans in the banking business	—	—	2,837,349	2,837,349
Long-term debt including the current portion	—	841,249	60,873	902,122

The fair values of long-term debt, including the current portion classified as Level 2, were estimated mainly based on discounted future cash flows using Sony's current rates for similar liabilities.

Financial instruments classified as Level 3 mainly include housing loans in the banking business, securitized products and certain bonds issued by Sony. In determining the fair value of such financial instruments, Sony uses the present value of expected cash flows based on risk-free interest rate yield curves with certain credit risk.

7. Note to investment properties

The disclosure is omitted because there are no significant investment properties.

8. Notes to per-share information

Sony Group Corporation's stockholders' equity per share	5,775.63 yen
Basic net income attributable to Sony Group Corporation's stockholders per share	711.84 yen

9. Notes to revenue recognition

(1) Contract balances

Receivables from contracts with customers, contract assets and contract liabilities are comprised of the following:

	<u>Yen in millions</u> <u>March 31, 2022</u>
Receivables from contracts with customers *1	1,382,377
Contract assets *2	16,785
Contract liabilities *3	366,227

*1 Receivables from contracts with customers are included in the consolidated statements of financial position as “Trade and other receivables, and contract assets” and “Other financial assets,” non-current.

*2 Contract assets are included in the consolidated statements of financial position as “Trade and other receivables, and contract assets” and “Other non-current assets.”

*3 Contract liabilities are included in the consolidated statements of financial position as “Other current liabilities” and “Other non-current liabilities.”

Contract liabilities principally relate to customer advances received prior to performance. Revenues of 231,274 million yen were recognized during the fiscal year ended March 31, 2022, which were included in the balance of contract liabilities at March 31, 2021. Revenues of 78,149 million yen were recognized during the fiscal year ended March 31, 2022 from performance obligations satisfied prior to April 1, 2021.

(2) Performance obligations

Remaining (unsatisfied or partially unsatisfied) performance obligations represent future revenues not yet recorded for firm orders that have not yet been performed. Sony applies practical expedients to exclude contracts with an expected original duration of one year or less. The following table shows the summary of the transaction prices allocated to remaining performance obligations that are unsatisfied at March 31, 2022, of which more than half are expected to be recognized within one year and substantially all within three years. The amount of the transaction price related to variable consideration is included only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

	<u>Yen in millions</u> <u>March 31, 2022</u>
Pictures — Motion Pictures and Television Productions *1	705,974
Pictures — Media Networks	17,568
Music *2	127,530
Others	57,948

*1 For Motion Pictures and Television Productions in the Pictures segment, Sony has included all contracts regardless of the duration.

*2 The amount included in the Music segment primarily consists of minimum royalty guarantees or fixed fees in contracts related to license revenue for ongoing access to an evolving library of content.

(3) Disaggregation of revenue

The following table is a breakdown of sales and financial services revenue by segment and product category for each segment.

Sales and financial services revenue by segment and product category:

	Yen in millions
	<u>Fiscal year ended March 31, 2022</u>
Sales and financial services revenue:	
Game & Network Services	
Digital Software and Add-on Content	1,424,459
Network Services	409,355
Hardware and Others	840,542
Total	<u>2,674,356</u>
Music	
Recorded Music — Streaming	462,368
Recorded Music — Others	206,412
Music Publishing	200,334
Visual Media and Platform	231,418
Total	<u>1,100,532</u>
Pictures	
Motion Pictures	518,840
Television Productions	419,494
Media Networks	298,065
Total	<u>1,236,399</u>
Electronics Products & Solutions	
Televisions	858,837
Audio and Video	326,704
Still and Video Cameras	414,898
Mobile Communications	365,864
Other	331,583
Total	<u>2,297,886</u>
Imaging & Sensing Solutions	992,200
Financial Services	1,524,811
All Other	82,264
Corporate	13,065
Consolidated total	<u><u>9,921,513</u></u>

The G&NS segment includes the network services businesses, the manufacture and sales of home gaming products and the production and sales of software. Digital Software and Add-on Content includes distribution of software titles and add-on content through the network by Sony Interactive Entertainment; Network Services includes network services relating to game, video and music content; Hardware and Others includes home gaming consoles, packaged software, peripheral devices and first-party software for third-party platforms.

The Music segment includes the Recorded Music, Music Publishing and Visual Media and Platform businesses. Recorded Music — Streaming includes the distribution of digital recorded music by streaming; Recorded Music — Others includes the distribution of recorded music by physical media and digital download as well as revenue derived from artists' live performances; Music Publishing includes the management and licensing of the words and music of songs; Visual Media and Platform includes the production and distribution of animation titles and game applications, and various service offerings for music and visual products.

The Pictures segment includes the Motion Pictures, Television Productions and Media Networks businesses. Motion Pictures includes the worldwide production, acquisition and distribution of live-action and animated motion pictures; Television Productions includes the production, acquisition and distribution of television programming; Media Networks includes the operation of television and digital networks worldwide.

The EP&S segment includes the Televisions business, the Audio and Video business, the Still and Video Cameras business, the smartphone business and internet-related service business. Televisions includes LCD and OLED televisions; Audio and Video includes Blu-ray disc players and recorders, home audio, headphones and memory-based portable audio devices; Still and Video Cameras includes interchangeable lens cameras, compact digital cameras, consumer video cameras and video cameras for broadcast; Mobile Communications includes smartphones and an internet-related service business; Other includes display products such as projectors and medical equipment.

The I&SS segment includes the image sensors business.

The Financial Services segment primarily represents individual life insurance and non-life insurance businesses in the Japanese market and the banking business in Japan.

All Other consists of various operating activities, including the disc manufacturing and recording media businesses.

10. Subsequent Event

Setting of parameters for repurchase of shares of its own common stock

Sony Group Corporation approved the setting of the following parameters for repurchase of its own common stock pursuant to the Companies Act of Japan and Sony Group Corporation's Articles of Incorporation at the meeting of its Board of Directors held on May 10, 2022:

1. Total number of shares for repurchase: 25 million shares (maximum)
2. Total purchase price for repurchase of shares: 200 billion yen (maximum)
3. Period of repurchase: May 11, 2022 to May 10, 2023