Lazard Ltd
Form 10-K
February 28, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2007

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ___________ to ___________

001-32492

(Commission File Number)

LAZARD LTD

(Exact name of registrant as specified in its charter)

Bermuda	**98-0437848**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

Clarendon House

2 Church Street

Hamilton HM11, Bermuda

(Address of principal executive offices)

Registrant s telephone number: (441) 295-1422

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A Common Stock, par value $0.01 per share	**New York Stock Exchange**
6.625% Equity Security Units	**New York Stock Exchange**

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The aggregate market value of the common stock held by non-affiliates of the Registrant as of June 30, 2007 was approximately $2,256,801,382.

As of January 31, 2008, there were 51,745,825 shares of the Registrant s Class A common stock (including 1,712,846 shares held by a subsidiary) and one share of the registrant s Class B common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s proxy statement for its 2008 annual general meeting of shareholders are incorporated by reference in this Form 10-K in response to Part III Items 10, 11, 12, 13 and 14.

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LAZARD LTD

ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED

DECEMBER 31, 2007

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Part I

When we use the terms Lazard , we , us , our , and the Company , we mean Lazard Ltd, a company incorporated under the laws of Bermuda, and its subsidiaries, including Lazard Group LLC, a Delaware limited liability company (Lazard Group), that is the current holding company for our businesses. Lazard Ltd has no material assets other than indirect ownership of approximately 48.3% of the common membership interests in Lazard Group and its controlling interest in Lazard Group.

Item 1. Business

We are a preeminent international financial advisory and asset management firm that has long specialized in crafting solutions to the complex financial and strategic challenges of our clients. We serve a diverse set of clients around the world, including corporations, partnerships, institutions, governments and high-net worth individuals. The first Lazard partnership was established in 1848. Over time we have extended our activities beyond our roots in New York, Paris and London. We currently operate from 39 cities in key business and financial centers across 21 countries throughout Europe, North America, Asia, Australia and South America. We focus primarily on two business segments, Financial Advisory and Asset Management. We believe that the mix of our activities across business segments, geographic regions, industries and investment strategies helps to diversify and stabilize our revenue stream.

The Separation and Recapitalization

On May 10, 2005, we completed the initial public offering of Class A common stock of Lazard Ltd, the public offering of equity security units (ESUs) of Lazard Ltd, the private placements under an investment agreement with IXIS Corporate & Investment Bank (IXIS or, following its merger with and into its parent, Natixis) and the private offering of the 7.125% senior notes due 2015 of Lazard Group, primarily to recapitalize Lazard Group. We refer to these financing transactions and the recapitalization, collectively, as the recapitalization. As part of the recapitalization, Lazard Group used the net proceeds from the financing transactions primarily to redeem the outstanding Lazard Group membership interests of certain of its historical partners.

On May 10, 2005, Lazard Group also transferred its capital markets business, which consisted of equity, fixed income and convertibles sales and trading, broking, research and underwriting services, and fund management activities outside of France as well as other specified non-operating assets and liabilities, to LFCM Holdings LLC, a Delaware limited liability company (LFCM Holdings). We refer to these businesses, assets and liabilities as the separated businesses and these transfers collectively as the separation. Except as otherwise expressly noted in this annual report on Form 10-K, the consolidated financial data of Lazard Group and Lazard Ltd reflect the results of operations and financial position of Lazard Group and Lazard Ltd and includes the separated businesses in discontinued operations for all applicable periods presented.

Prior to the separation and recapitalization, Lazard Group had operated as a limited liability company that was treated as a partnership for U.S. federal income tax purposes, with its managing directors also being members of Lazard Group. As a result, payments for services rendered by Lazard Group s managing directors were accounted for as distributions from members capital, or in some cases as minority interest in net income. Furthermore, because Lazard Group historically has operated as an entity treated as a partnership in the U.S. for federal income tax purposes, Lazard Group has paid little or no taxes on profits in the U.S., other than New York City Unincorporated Business Tax (UBT). Therefore, Lazard Group s operating income prior to the separation and recapitalization did not reflect most payments for services rendered by its managing directors and its provision for income taxes has not reflected U.S. corporate federal income taxes. Accordingly, results of operations for periods prior to May 10, 2005 are not comparable to results of operations for subsequent periods.

Principal Business Lines

Our business is organized around two primary segments: Financial Advisory and Asset Management.

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Financial Advisory

We offer corporate, partnership, institutional, government and individual clients across the globe a wide array of financial advisory services regarding mergers and acquisitions (M&A), restructurings and various other corporate finance matters. We focus on solving our clients most complex problems, providing advice to senior management, boards of directors and business owners of prominent companies and institutions in transactions that typically are of significant strategic and financial importance to them.

Our goal is to continue to grow our Financial Advisory business by fostering long-term, senior level relationships with existing and new clients as their independent advisor on strategic transactions. We seek to build and sustain long-term relationships with our clients rather than focusing on individual transactions, a practice that we believe enhances our access to senior management of major corporations and institutions around the world. We emphasize providing clients with senior level attention during all phases of transaction execution.

While we strive to earn repeat business from our clients, we operate in a highly competitive environment in which there are no long-term contracted sources of revenue. Each revenue-generating engagement is separately negotiated and awarded. To develop new client relationships, and to develop new engagements from historical client relationships, we maintain an active dialogue with a large number of clients and potential clients, as well as with their financial and legal advisors, on an ongoing basis. We have gained a significant number of new clients each year through our business development initiatives, through recruiting additional senior investment banking professionals who bring with them client relationships and through referrals from directors, attorneys and other third parties with whom we have relationships. At the same time, we lose clients each year as a result of the sale or merger of a client, a change in a client s senior management, competition from other investment banks and other causes.

For the years ended December 31, 2007, 2006 and 2005, Financial Advisory net revenue totaled $1,240 million, $973 million and $865 million, respectively, accounting for approximately 64%, 65% and 66%, respectively, of our consolidated net revenue from continuing operations for the periods. We earned advisory revenue from 622 clients, 510 clients and 484 clients for the years ended December 31, 2007, 2006 and 2005, respectively. We earned $1 million or more from 230 clients, 202 clients and 184 clients for the years ended December 31, 2007, 2006 and 2005, respectively. For the years ended December 31, 2007, 2006 and 2005, the ten largest fee paying clients constituted approximately 19%, 21% and 20% of our segment net revenue, respectively, with no client individually having constituted more than 10% of segment net revenue during any of these years. For the years ended December 31, 2007, 2006 and 2005, Financial Advisory reported operating income of $319 million, $251 million and $276 million, respectively, although as noted previously, results of operations for the period prior to May 10, 2005 are not comparable to results of operations for subsequent periods. At December 31, 2007, 2006 and 2005, Financial Advisory had total assets of $812 million, $453 million, and $337 million, respectively.

We believe that we have been pioneers in offering financial advisory services on an international basis, with the establishment of our New York, Paris and London offices dating back to the nineteenth century. We maintain major local presences in the U.S., the U.K. and France, including a network of regional branch offices in the U.S. and France, as well as presences in Argentina, Australia, Brazil, Canada, Chile, Dubai, Germany, Hong Kong, India, Italy, Japan, the Netherlands, Panama, Sweden, Singapore, South Korea, Spain, Switzerland, Uruguay and mainland China.

During 2004, we entered into a joint venture with Signatura Advisory, called Signatura Lazard, which provides local and cross-border financial services in Brazil. On January 31, 2008, we acquired a 50% interest in Merchant Bankers Asociados (MBA), an Argentina-based financial advisory services firm with offices across Central and South America and the parent company of MBA Banco de Inversiones. In addition, on August 13, 2007, we acquired all of the outstanding ownership interests of Goldsmith, Agio, Helms & Lynner, LLC (GAHL), a Minneapolis-based investment bank specializing in financial advisory services to mid-sized private companies, and on July 31, 2007, we acquired all of the outstanding shares of Carnegie, Wylie & Company (Holdings) PTY LTD (CWC), an Australia-based financial advisory firm. We operate GAHL and CWC under

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the names Lazard Middle Market and Lazard Carnegie Wylie , respectively. Furthermore, on June 19, 2007, we entered into a joint cooperation agreement with Raiffeisen Investment AG (Raiffeisen) for merger and acquisition advisory services in Russia and the Central and Eastern European (the CEE) region. The cooperation between Raiffeisen, one of the CEE region s top M&A advisors and us will provide domestic, international and cross-border expertise within Russia and the CEE region, and with the rest of the world. Raiffeisen is the M&A advisory business of Raiffeisen Zentralbank Östereich AG.

In addition to seeking business centered in the locations referred to above, we historically have focused in particular on advising clients with respect to cross-border transactions. We believe that we are particularly well known for our legacy of offering broad teams of professionals who are indigenous to their respective regions and who have long-term client relationships, capabilities and know-how in their respective regions. We also believe that this positioning affords us insight around the globe into key industry, economic, government and regulatory issues and developments, which we can bring to bear on behalf of our clients.

Services Offered

We advise clients on a wide range of strategic and financial issues. When we advise companies in the potential acquisition of another company or certain assets, our services include evaluating potential acquisition targets, providing valuation analyses, evaluating and proposing financial and strategic alternatives and rendering, if appropriate, fairness opinions. We also may advise as to the timing, structure, financing and pricing of a proposed acquisition and assist in negotiating and closing the acquisition. In addition, we may assist in executing an acquisition by acting as a dealer-manager in transactions structured as a tender or exchange offer.

When we advise clients that are contemplating the sale of certain businesses, assets or their entire company, our services include advising on the appropriate sales process for the situation, valuation issues, assisting in preparing an offering circular or other appropriate sales materials and rendering, if appropriate, fairness opinions. We also identify and contact selected qualified acquirors and assist in negotiating and closing the proposed sale. As appropriate, we also advise our clients regarding financial and strategic alternatives to a sale including recapitalizations, spin-offs, carve-outs, split-offs and tracking stocks. Our advice includes recommendations with respect to the structure, timing and pricing of these alternatives.

For companies in financial distress, our services may include reviewing and analyzing the business, operations, properties, financial condition and prospects of the company, evaluating debt capacity, assisting in the determination of an appropriate capital structure and evaluating and recommending financial and strategic alternatives. If appropriate, we may provide financial advice and assistance in developing and seeking approval of a restructuring or reorganization plan, which may include a plan of reorganization under Chapter 11 of the U.S. Bankruptcy Code or other similar court administered process in non-U.S. jurisdictions. In such cases, we may assist in all aspects of the implementation of such a plan, including advising and assisting in structuring and effecting the financial aspects of a sale or recapitalization, structuring any new securities, exchange offers, other considerations or other inducements to be offered or issued and assisting and participating in negotiations with affected entities or groups.

When we assist clients in raising private or public market financing, our services include originating and executing private placements of equity, debt and related securities, assisting clients in connection with securing, refinancing or restructuring bank loans, originating public underwritings of equity, debt and convertible securities and originating and executing private placements of partnership and similar interests in alternative investment funds such as leveraged buyout, mezzanine or real estate focused funds. In addition, we may advise on capital structure and assist in long-range capital planning and rating agency relationships.

Pursuant to the business alliance agreement we entered into with LFCM Holdings in connection with the separation, LFCM Holdings generally underwrites and distributes U.S. securities offerings originated by our

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Financial Advisory business in a manner intended to be similar to our practice prior to the separation, with revenue from such offerings generally continuing to be divided evenly between Lazard Group and LFCM Holdings.

Staffing

We staff our assignments with a team of quality professionals with appropriate product and industry expertise. We pride ourselves on, and we believe we differentiate ourselves from our competitors by, being able to offer a relatively high level of attention from senior personnel to our clients and organizing ourselves in such a way that managing directors who are responsible for securing and maintaining client relationships also actively participate in providing related transaction execution services. Our managing directors have significant experience, and many of them are able to use this experience to advise on both mergers and acquisitions and restructuring transactions, depending on our clients needs. Many of our managing directors and senior advisors come from diverse backgrounds, such as senior executive positions at corporations, government, law and strategic consulting, which we believe enhances our ability to offer sophisticated advice and custom solutions to our clients.

Industries Served

We seek to offer our services across most major industry groups, including, in many cases, sub-industry specialties. Our Mergers and Acquisitions managing directors and professionals are organized to provide advice in the following major industry practice areas:

- consumer,
- financial institutions,
- financial sponsors,
- healthcare and life sciences,
- industrial,
- power and energy/infrastructure,
- real estate, and
- technology, media and telecommunications.

These groups are managed locally in each relevant geographic region and are coordinated on a global basis, which allows us to bring local industry-specific knowledge to bear on behalf of our clients on a global basis. We believe that this enhances the quality of advice that we can offer, which improves our ability to market our capabilities to clients.

In addition to our Mergers and Acquisitions and Financial Restructuring practices, we also maintain specialties in the following distinct practice areas:

- government advisory,
- fund raising for alternative investment funds,
- private investment in public equity, or PIPE ,
- special purpose acquisition companies, or SPACs , and
- corporate finance.

We endeavor to coordinate the activities of the professionals in these areas with our Mergers and Acquisitions industry specialists in order to offer clients customized teams of cross-functional expertise spanning both industry and practice area know-how.

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Strategy

Our focus in our Financial Advisory business is on:

- making a significant investment in our intellectual capital with the addition of many senior professionals who we believe have strong client relationships and industry expertise,
- increasing our contacts with existing clients to further enhance our long-term relationships and our efforts in developing new client relationships,
- expanding the breadth and depth of our industry expertise and selectively adding new practice areas,
- coordinating our industry specialty activities on a global basis and increasing the integration of our industry experts with our Financial Restructuring professionals, and
- broadening our geographic presence by adding new offices in Australia (Brisbane and Melbourne), Switzerland (Zurich), mainland China (Beijing and Shanghai) and Emirate of Dubai (Dubai City), as well as new regional offices in the U.S (Boston and Minneapolis) and entering into new strategic alliances in South America (Argentina, Brazil, Chile, Panama and Uruguay), and a joint cooperation agreement in Eastern Europe and Russia.

In addition to the expansion of our Financial Advisory team, we believe that the following external market factors may enable our Financial Advisory practice to benefit in the global mergers and acquisitions advisory business:

- increasing demand for independent, unbiased financial advice, and
- a potential increase in cross-border mergers and acquisitions and large capitalization mergers and acquisitions, two of our areas of historical specialization.

Going forward, our strategic emphasis in our Financial Advisory business is to leverage the investments we have made in recent years to grow our business and drive our productivity. We continue to seek to opportunistically attract outstanding individuals to this practice. We routinely reassess our strategic position and may in the future seek opportunities to further enhance our competitive position. In this regard, during 2007, as described above, we broadened our geographic footprint through acquisitions, investments and alliances in Australia, Eastern Europe, Russia and Latin America. We opened new offices in Boston, Dubai City and Zurich. In addition, as a result of acquiring GAHL, we launched Lazard Middle Market, which advises mid-sized private companies.

Relationship with Natixis

In April 2004, Lazard Group and IXIS (now known as Natixis) entered into a cooperation arrangement to place and underwrite securities on the French equity primary capital markets under a common brand, currently Lazard-Natixis, and cooperate in their respective origination, syndication and placement activities. This cooperation covers French listed companies exceeding a market capitalization of 500 million. On March 15, 2005, Lazard Group and Natixis expanded this arrangement into an exclusive arrangement within France. The cooperation arrangement also provides for an alliance in real estate advisory work with the objective of establishing a common brand for advisory and financing operations within France. It also adds an exclusive mutual referral cooperation arrangement, subject to the fiduciary duties of each firm, with the goal of referring clients from Lazard Group to Natixis for services relating to corporate banking, lending, securitizations and derivatives within France and from Natixis to Lazard Group for mergers and acquisitions advisory services within France. This expanded cooperation arrangement has an initial term of three years through May 10, 2008.

In connection with the cooperation arrangement, Lazard Group and Natixis have developed a business plan to promote mutual revenue production and sharing relating to the cooperation activities. As part of that plan, revenue from the various activities subject to the cooperation arrangement is credited towards a target weighted revenue number (the Notional Reserve) of 20 million (which the parties may agree to reduce if aspects of the

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cooperation do not take place), calculated by applying varying percentages depending on the source of the revenue plus the underwriting commissions received by Natixis for the ESUs. If at the end of the initial term of the cooperation arrangement (a) the sum of that calculation is less than the Notional Reserve, (b) the cooperation arrangement is not renewed and (c) Lazard Ltd s Class A common stock price fails to exceed $25 per share for a specified period, Lazard Group or its affiliate will pay Natixis or one of its affiliates the difference between the Notional Reserve and the sum of (1) the weighted revenue credits and (2) any gain Natixis has realized on a sale of its investment in our securities prior to the end of the initial term of the arrangement. The level of this potential payment would depend, among other things, on the level of revenue generated by the cooperation activities. The potential payment is limited, as of December 31, 2007, to a maximum of approximately 0.8 million (subject to further reduction in certain circumstances) which would only occur if the cooperation activities generate no revenue over the course of the remaining initial period of such activities and the other conditions noted above have not been met.

Asset Management

Our Asset Management business provides investment management and advisory services to institutional clients, financial intermediaries, private clients and investment vehicles around the world. Our goal in our Asset Management business is to produce superior risk-adjusted investment returns and provide investment solutions customized for our clients. Many of our equity investment strategies share an investment philosophy that centers on fundamental security selection with a focus on the trade-off between a company s valuation and its financial productivity.

As of December 31, 2007, total assets under management (AUM) were $141.4 billion, approximately 85% of which was invested in equities, 10% in fixed income, 2% in alternative investments, 2% in cash and 1% in private equity funds. As of the same date, approximately 44% of our AUM was invested in international (*i.e.*, non-U.S. and regional non-U.S.) investment strategies, 37% was invested in global investment strategies and 19% was invested in U.S. investment strategies, and our top ten clients accounted for 27% of total AUM. Approximately 85% of our AUM as of that date was managed on behalf of institutional clients, including corporations, labor unions, public pension funds, insurance companies and banks, and through sub-advisory relationships, mutual fund sponsors, broker-dealers and registered advisors. Approximately 15% of AUM as of December 31, 2007 was managed on behalf of individual client relationships, which are principally with family offices and high-net worth individuals.

The charts below illustrate the mix of our AUM as of December 31, 2007, measured by broad product strategy and by office location.

AUM BY PRODUCT AUM BY OFFICE LOCATION

For the years ended December 31, 2007, 2006 and 2005, Asset Management net revenue totaled $725 million, $553 million and $466 million, respectively, accounting for approximately 38%, 37% and 36%, respectively, of our consolidated net revenue from continuing operations for the periods. During the same

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periods, Asset Management reported operating income of $185 million, $135 million and $116 million, respectively, although as noted previously results of operations for periods prior to May 10, 2005 are not comparable to results of operations for subsequent periods. At December 31, 2007, 2006 and 2005, Asset Management had $581 million, $419 million, and $308 million in total assets, respectively.

LAM and LFG

Our largest Asset Management subsidiaries are Lazard Asset Management LLC (LAM), with offices in New York, San Francisco, Minneapolis, Boston, San Diego, Chicago, Toronto, Montreal, London, Milan, Frankfurt, Hamburg, Tokyo, Sydney and Seoul (aggregating approximately $126.9 billion in total AUM as of December 31, 2007), and Lazard Frères Gestion (LFG) headquartered in Paris (aggregating approximately $13.1 billion in total AUM as of December 31, 2007). These operations, with 735 employees as of December 31, 2007, provide our business with a global presence and local identity.

Primary distinguishing features of these operations include:

- a global footprint with global research, global mandates and global clients,
- a broad-based team of approximately 240 investment professionals at December 31, 2007: LAM has approximately 210 investment professionals, which includes approximately 90 focused, in-house, investment analysts across all products and platforms, many of whom have substantial industry or sector specific expertise, and LFG has approximately 30 investment professionals, including nine investment analysts,
- a security selection-based investment philosophy applied across products analysis,
- worldwide brand recognition and multi-channel distribution capabilities, and
- a substantial equity participation in LAM held by a broad group of key employees.

Our Investment Philosophy, Process and Research. Our investment philosophy is generally based upon a fundamental security selection approach to investing. Across many of our products, we apply three key principles to investment portfolios:

- select securities, not markets,
- evaluate the trade-off between returns and valuations, and
- manage risk.

In searching for equity investment opportunities, our investment professionals generally follow an investment process that incorporates several interconnected components that may include:

- analytical framework analysis and screening,
- accounting validation,
- fundamental analysis,
- security selection and portfolio construction, and
- risk management.

At LAM, we conduct investment research on a global basis, to develop market, industry and company specific insight. Approximately 90 investment analysts, located in our worldwide offices, conduct research and evaluate investment opportunities around the world across all products and platforms. The LAM global research platform is organized around six global industry sectors:

- consumer goods,
- financial services,

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health care,

industrials,

power, and

technology, media and telecommunications.

Our analysts recommend companies to portfolio managers and work with them on an ongoing basis to make buy and sell decisions.

At LFG, nine investment analysts conduct research and evaluate investment opportunities, primarily focused on large capitalization European companies.

Investment Strategies. Our Asset Management business provides equity, fixed income and cash management and alternative investment strategies to clients, paying close attention to clients varying and expanding investment needs. We offer the following product platform of investment strategies:

	Global	Regional	Domestic
Equities	***Global***	***Pan-European***	***U.S.***
	Large Capitalization	Large Capitalization	Large Capitalization**
	Small Capitalization	Small Capitalization	Mid Capitalization
	Emerging Markets		Small Capitalization
	Thematic	***Eurozone***	Multi-Capitalization
	Convertibles*	Large Capitalization**	
	Listed Infrastructure	Small Capitalization**	***Other***
	Quantitative		U.K. (Large Capitalization)
		Continental European	U.K. (Small Capitalization)
	EAFE (Non-U.S.)	Small Cap	Australia
	Large Capitalization	Multi Cap	France (Large Capitalization)*
	Small Capitalization	Eurozone (*i.e.*, Euro Bloc)	France (Small Capitalization)*
	Multi-Capitalization	Euro-Trend (Thematic)	Japan**

	Quantitative		Korea
	Global Ex		
	Global Ex-U.K.		
	Global Ex-Japan		
	Global Ex-Australia		
Fixed Income and Cash Management	***Global***	***Pan-European***	***U.S.***
	Core Fixed Income	Core Fixed Income	Core Fixed Income
	High Yield	High Yield	High Yield
	Short Duration	Cash Management*	Short Duration
		Duration Overlay	Municipals
			Cash Management*
		Eurozone	
		Fixed Income**	***Non-U.S.***
		Cash Management*	U.K. Fixed Income
		Corporate Bonds**	
Alternative	***Global***	***Regional***	
	Global Opportunities (Long/Short)	European Explorer (Long/Short)	
	Fund of Hedge Funds	Emerging Income	
	Fund of Closed-End	Japan (Long/Short)	
	Funds (Long and Long/Short)		
	Convertible		
	Arbitrage/Relative Value		

All of the above strategies are offered by LAM, except for those denoted by *, which are offered exclusively by LFG. Investment strategies offered by both LAM and LFG are denoted by **.

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In addition to the primary investment strategies listed above, we also provide locally customized investment solutions to our clients. In many cases, we also offer both diversified and more concentrated versions of our products. These products are generally offered on a separate account basis, as well as through pooled vehicles.

Distribution. We distribute our products through a broad array of marketing channels on a global basis. LAM s marketing, sales and client service efforts are organized through a global market delivery and service network, with distribution professionals located in cities including New York, San Francisco, London, Milan, Frankfurt, Hamburg, Tokyo, Sydney and Seoul. We have developed a well-established presence in the institutional asset management arena, managing money for corporations, labor unions and public pension funds around the world. In addition, we manage assets for insurance companies, savings and trust banks, endowments, foundations and charities.

We also have become a leading firm in third-party distribution, managing mutual funds and separately managed accounts for many of the world s largest broker-dealers, insurance companies, registered advisors and other financial intermediaries. In the area of wealth management, we cater to family offices and private clients.

LFG markets and distributes its products through 21 sales professionals based in France who target directly both individual and institutional investors.

Most of the managing directors of LAM and other key LAM employees hold LAM equity units, which entitle their holders to payments in connection with selected fundamental transactions affecting Lazard Group or LAM. For more information regarding these rights see Management s Discussion and Analysis of Financial Condition and Results of Operations.

Alternative Investments

Lazard has a long history of making alternative investments with its own capital, usually alongside capital of qualified institutional and individual investors. These activities typically are organized in funds that make substantial or controlling investments in private or public companies, generally through privately negotiated transactions and with a view to divestment within two to seven years. While potentially risky and frequently illiquid, such investments, when successful, can yield investors substantial returns on capital and generate attractive management and performance fees for the sponsor of such funds.

As a part of the separation, we transferred to LFCM Holdings all of our alternative investment activities, except for Fonds Partenaires Gestion (FPG), our private equity business in France, which is a subsidiary of our Paris-based banking affiliate, Lazard Frères Banque SA (LFB) and is regulated by the Autorité des Marchés Financiers. We also transferred to LFCM Holdings principal investments by Lazard Group in the funds managed by the separated businesses, while we retained our investment in our French private equity funds.

LFCM Holdings operates the alternative investment business (including private equity activities) transferred to it in the separation. Consistent with our intent to support the development of the alternative investment business, including investing capital in funds managed or formed by Lazard Alternative Investments Holdings LLC (LAI), a subsidiary of LFCM Holdings, and in order to benefit from what we believe to be the potential of this business, we are entitled to receive from LFCM Holdings all or a portion of the payments from the incentive fees attributable to these funds (net of compensation payable to investment professionals who manage these funds) pursuant to the business alliance agreement between us and LFCM Holdings. In addition, pursuant to the business alliance agreement, we have an option to acquire the fund management activities of LAI and have the right to participate in the oversight of LFCM Holdings funds and consent to certain actions. We will continue to abide by our obligations with respect to transferred funds and will not compete with LFCM Holdings alternative investment business during the duration of our option to acquire this business. From time to time, we have considered exercising the option described above and have had preliminary conversations with LFCM Holdings in that regard.

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In February 2005, Lazard Group formed Corporate Partners II Limited, a private equity fund with $1 billion of institutional capital commitments and a $100 million capital commitment from Lazard Group, the principal portion of which may require funding, at any time through 2010. As of December 31, 2007, Lazard Group contributed approximately $24 million of its capital commitment. Pursuant to the master separation and business alliance agreements entered into between Lazard Group and LFCM Holdings, this fund is managed by a subsidiary of LFCM Holdings, and Lazard Group retained a capital commitment to the fund and is entitled to receive the carried interest distributions made by the fund (other than the carried interest distributions made to investment professionals who manage the fund).

In July 2005, LFCM Holdings formed a private equity fund, Lazard Senior Housing Partners LP, which closed with capital commitments of $201 million from institutional investors, including $10 million from Lazard Group, the principal portion of which will require funding at any time through 2008. In connection with such capital commitment, Lazard Group had funded $8 million as of December 31, 2007.

Pursuant to the business alliance agreement, Lazard Group has a limited partner capital commitment to Lazard Technology Partners III, a planned investment fund to be managed and controlled by LFCM Holdings, which is contingent upon the formation of such investment fund. As of December 31, 2007, the capital commitment was 10% of the total fund capital commitments, with a minimum and maximum commitment from Lazard Group of $15 million and $20 million, respectively. As of December 31, 2007, this investment fund has not been formed and Lazard Group has not made any payment toward such contingent capital commitment.

On October 2, 2007, Lazard Funding Limited LLC (Lazard Funding), a wholly-owned subsidiary of Lazard Group, formed a special purpose acquisition company, Sapphire Industrials Corp. (Sapphire), for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization or similar business combination with one or more operating businesses. In connection with the formation of Sapphire, Lazard Funding purchased approximately 17.4 million founder units at a total cost of approximately $0.1 million. Each founders unit consists of one share of Sapphire common stock and one warrant to purchase one share of Sapphire common stock. On January 24, 2008, Sapphire completed an initial public offering (the Sapphire IPO), raising $800 million through the sale of 80 million units at an offering price of $10.00 per unit. On January 24, 2008, in connection with the Sapphire IPO, Lazard Funding purchased (i) 5 million units in the Sapphire IPO at a purchase price equal to the public offering price of $10.00 per unit (for an aggregate purchase price of $50.0 million), and (ii) an aggregate of 12.5 million warrants from Sapphire at a price of $1.00 per warrant (for a total purchase price of $12.5 million). See Note 13 of Notes to Consolidated Financial Statements for additional information regarding Sapphire and the Sapphire IPO.

As of December 31, 2007, FPG, Lazard Group s private equity business in France, with 10 employees, consisted of a group of private equity funds and an affiliated management company with approximately $1.3 billion of AUM. Lazard Group s investments in FPG-managed and other affiliated funds totaled approximately $27 million as of December 31, 2007.

In connection with the acquisition of CWC, Lazard now includes CWC s private equity business as part of its Asset Management segment. CWC s private equity business, with 12 employees, had approximately $100 million of private equity AUM as of December 31, 2007.

Strategy

Our strategic plan in our Asset Management business is to focus on delivering superior investment performance and client service and broadening our product offerings and distribution in selected areas in order to continue to drive improved business results. Over the past several years, in an effort to improve LAM s operations and expand our business, we have:

focused on enhancing our investment performance,

- improved our investment management platform by adding a number of senior investment professionals (including portfolio managers and analysts),

- continued to strengthen our marketing and consultant relations capabilities,

- expanded our product platform by lifting-out experienced portfolio managers to establish new products, and

- launched new products such as several hedge fund strategies, Global/Regional Quantitative equities strategies and a global listed infrastructure strategy.

We believe that our Asset Management business has long maintained an outstanding team of portfolio managers and global research analysts. We intend to maintain and supplement our intellectual capital to achieve our goals. We routinely reassess our strategic position and may in the future seek acquisitions or other transactions, including the opportunistic hiring of new employees, in order to further enhance our competitive position. We also believe that our specific investment strategies, global reach, unique brand identity and access to multiple distribution channels will allow us to expand into new investment products, strategies and geographic locations. In addition, we plan to expand our participation in alternative investment activities through investments in new and successor funds.

Employees

We believe that our people are our most important asset, and it is their reputation, talent, integrity and dedication that underpin our success. As of December 31, 2007, we employed 2,458 people, which included 138 managing directors and 657 other professionals in our Financial Advisory segment and 48 managing directors and 337 other professionals in our Asset Management segment. We strive to maintain a work environment that fosters professionalism, excellence, diversity and cooperation among our employees worldwide. We utilize an evaluation process at the end of each year to measure performance, determine compensation and provide guidance on opportunities for improved performance. Generally, our employees are not subject to any collective bargaining agreements, except that our employees in certain of our European offices, including France and Italy, are covered by national, industry-wide collective bargaining agreements. We believe that we have good relations with our employees.

Competition

The financial services industry, and all of the businesses in which we compete, are intensely competitive, and we expect them to remain so. Our competitors are other investment banking and financial advisory firms, broker-dealers, commercial and universal banks, insurance companies, investment management firms, hedge fund management firms, alternative investment firms and other financial institutions. We compete with some of our competitors globally and with others on a regional, product or niche basis. We compete on the basis of a number of factors, including quality of people, transaction execution skills, investment track record, quality of client service, individual and institutional client relationships, absence of conflicts, range of products and services, innovation, brand recognition and business reputation.

While our competitors vary by country in our Mergers and Acquisitions practice, we believe our primary competitors in securing mergers and acquisitions advisory engagements are Bear Stearns, Citigroup, Credit Suisse, Deutsche Bank AG, Goldman, Sachs & Co., JPMorgan Chase, Lehman Brothers, Mediobanca, Merrill Lynch, Morgan Stanley, Rothschild and UBS. In our Financial Restructuring practice, our primary competitors are The Blackstone Group, Greenhill & Co. and Rothschild.

We believe that our primary competitors in our Asset Management business include, in the case of LAM, Alliance Bernstein, AMVESCAP, Brandes Investment Partners, Capital Management & Research, Fidelity, Lord Abbett and Schroders and, in the case of LFG, Swiss private banks with offices in France as well as large institutional banks and fund managers. We face competition in private equity both in the pursuit of outside investors for our private equity funds and to acquire investments in attractive portfolio companies. We compete with hundreds of other funds, many of which are subsidiaries of or otherwise affiliated with large financial service providers.

Competition is also intense in each of our businesses for the attraction and retention of qualified employees, and we compete on the level and nature of compensation and equity-based incentives for key employees. Our ability to continue to compete effectively in our businesses will depend upon our ability to attract new employees and retain and motivate our existing employees.

In recent years there has been substantial consolidation and convergence among companies in the financial services industry. In particular, a number of large commercial banks, insurance companies and other broad-based financial services firms have established or acquired broker-dealers or have merged with other financial institutions. Many of these firms have the ability to offer a wider range of products than we offer, including loans, deposit taking, insurance and brokerage services. Many of these firms also offer more extensive asset management and investment banking services, which may enhance their competitive position. They also have the ability to support investment banking and securities products with commercial banking, insurance and other financial services revenue in an effort to gain market share, which could result in pricing pressure in our businesses. This trend toward consolidation and convergence has significantly increased the capital base and geographic reach of our competitors.

Regulation

Our businesses, as well as the financial services industry generally, are subject to extensive regulation throughout the world. As a matter of public policy, regulatory bodies are charged with safeguarding the integrity of the securities and other financial markets and with protecting the interests of customers participating in those markets, not with protecting the interests of our stockholders or creditors. Many of our affiliates that participate in securities markets are subject to comprehensive regulations that include some form of capital structure regulations and other customer protection rules. In the U.S., certain of our subsidiaries are subject to such regulations promulgated by the SEC or FINRA (formerly the NASD). Standards, requirements and rules implemented throughout the European Union are broadly comparable in scope and purpose to the regulatory capital and customer protection requirements imposed under the SEC and FINRA rules. European Union directives also permit local regulation in each jurisdiction, including those in which we operate, to be more restrictive than the requirements of such directives, and these sometimes burdensome local requirements can result in certain competitive disadvantages to us.

In the U.S., the SEC is the federal agency responsible for the administration of the federal securities laws. FINRA is a voluntary, self-regulatory body composed of members, such as our broker-dealer subsidiaries, that have agreed to abide by FINRA s rules and regulations. The SEC, FINRA and non-U.S. regulatory organizations may examine the activities of, and may expel, fine and otherwise discipline us and our employees. The laws, rules and regulations comprising this framework of regulation and the interpretation and enforcement of existing laws, rules and regulations are constantly changing. The effect of any such changes cannot be predicted and may impact the manner of operation and profitability of our company.

Our principal U.S. broker-dealer subsidiary, Lazard Frères & Co. LLC, through which we conduct most of our U.S. Financial Advisory business, is currently registered as a broker-dealer with the SEC and FINRA, and as a broker-dealer in all 50 states, the District of Columbia and Puerto Rico. As such, Lazard Frères & Co. LLC is subject to regulations governing effectively every aspect of the securities business, including the effecting of securities transactions, minimum capital requirements, record-keeping and reporting procedures, relationships with customers, experience and training requirements for certain employees and business procedures with firms that are not members of certain regulatory bodies. Lazard Asset Management Securities LLC, a subsidiary of LAM, also is registered as a broker-dealer with the SEC and FINRA and in all 50 states, the District of Columbia

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and Puerto Rico. Goldsmith Agio Helms Securities, Inc., a subsidiary of GAHL, is registered as a broker-dealer with the SEC and FINRA and California, Florida, Illinois, Michigan, Minnesota, New York and Ohio. Certain U.K. subsidiaries of Lazard Group, including Lazard & Co., Limited, Lazard Fund Managers Limited and Lazard Asset Management Limited, which we refer to in this annual report as, the U.K. subsidiaries, are regulated by the Financial Services Authority. We also have other subsidiaries that are registered as broker-dealers (or have similar non-US registration in various jurisdictions).

Compagnie Financière Lazard Frères SAS (CFLF), our French subsidiary through which non-corporate finance advisory activities are carried out in France, is subject to regulation by the Commission Bancaire and the Comité des Ètablissements de Crédit et des Entreprise d Investissement for its banking activities conducted through its affiliate LFB. In addition, the investment services activities of the Paris group, exercised through LFB and other subsidiaries of CFLF, primarily LFG (asset management) and FPG (private equity), are subject to regulation and supervision by the Autorité des Marchés Financiers. Our business is also subject to regulation by non-U.S. governmental and regulatory bodies and self-regulatory authorities in other countries where we operate.

Our U.S. broker-dealer subsidiaries, including Lazard Frères & Co. LLC, are subject to the SEC s uniform net capital rule, Rule 15c3-1, and the net capital rules of FINRA, which may limit our ability to make withdrawals of capital from our broker-dealer subsidiaries. The uniform net capital rule sets the minimum level of net capital a broker-dealer must maintain and also requires that a portion of its assets be relatively liquid. FINRA may prohibit a member firm from expanding its business or paying cash dividends if resulting net capital falls below its requirements. In addition, our broker-dealer subsidiaries are subject to certain notification requirements related to withdrawals of excess net capital. Our broker-dealer subsidiaries are also subject to regulations including the USA PATRIOT Act of 2001, which impose obligations regarding the prevention and detection of money-laundering activities, including the establishment of customer due diligence and other compliance policies and procedures. Failure to comply with these requirements may result in monetary, regulatory and, in certain cases, criminal penalties.

Certain of our Asset Management subsidiaries are registered as investment advisors with the SEC. As registered investment advisors, each is subject to the requirements of the Investment Advisers Act and the SEC s regulations thereunder. Such requirements relate to, among other things, the relationship between an advisor and its advisory clients, as well as general anti-fraud prohibitions. LAM serves as an advisor to several mutual funds which are registered under the Investment Company Act. The Investment Company Act regulates, among other things, the relationship between a mutual fund and its investment advisor (and other service providers) and prohibits or severely restricts principal transactions between an advisor and its advisory clients, imposes record- keeping and reporting requirements, disclosure requirements, limitations on trades where a single broker acts as the agent for both the buyer and seller (known as agency cross), and limitations on affiliated transactions and joint transactions. Lazard Asset Management Securities LLC, a subsidiary of LAM, serves as the underwriter or distributor for mutual funds and hedge funds managed by LAM, and as an introducing broker to Lazard Capital Markets LLC for unmanaged accounts of LAM s private clients.

In addition, the Japanese Ministry of Finance and the Financial Supervisory Agency in Japan, the Korean Financial Supervisory Commission in Korea, as well as Australian and German banking authorities, among others, regulate various of our operating entities and also have capital standards and other requirements comparable to the rules of the SEC.

Regulators are empowered to conduct administrative proceedings that can result in censure, fine, the issuance of cease-and-desist orders or the suspension or expulsion or other disciplining of a broker-dealer or its directors, officers or employees.

Over the past several years, European Union financial services regulators have taken steps to institute consolidated supervision over a wide range of financial services companies that conduct business in the European Union, even if their head offices are located outside of the European Union. Under the Financial Conglomerates

Directive (2002/87/EC), we, along with a number of our competitors, were required to submit to consolidated supervision by a European Union financial services regulator commencing on January 1, 2005, unless we were already subject to equivalent supervision by another regulator. During 2004, the SEC issued final regulations establishing a consolidated supervision framework for investment banks. Under these regulations, we can voluntarily submit to a stringent framework of rules relating to group-wide capital levels, internal risk management control systems and regulatory reporting requirements. We have elected to become subject to consolidated supervision by the SEC and formally notified the SEC of our intention in December 2004. It is possible that these regulations may ultimately require that we increase our regulatory capital, which may adversely affect our profitability and result in other increased costs. We are currently in the process of formal discussions with the SEC in connection with consolidated supervision matters and expect to be subject to consolidated supervision by the SEC sometime during 2008.

Executive Officers of the Registrant

Set forth below are the name, age, present title, principal occupation and certain biographical information for our executive officers as of February 22, 2008, all of whom have been appointed by, and serve at the pleasure of, our board of directors.

Bruce Wasserstein, 60

Mr. Wasserstein has served as Chairman and Chief Executive Officer of Lazard Group and Lazard Ltd since May 2005. Mr. Wasserstein has served as a director of Lazard Group since January 2002 and as a director of Lazard Ltd since April 2005. Mr. Wasserstein served as the Head of Lazard and Chairman of the Executive Committee of Lazard Group from January 2002 until May 2005. Prior to joining Lazard, Mr. Wasserstein was Executive Chairman at Dresdner Kleinwort Wasserstein from January 2001 to November 2001. Prior to joining Dresdner Kleinwort Wasserstein, he served as CEO of Wasserstein Perella Group (an investment banking firm he co-founded) from February 1988 to January 2001, when Wasserstein Perella Group was sold to Dresdner Bank. Prior to founding Wasserstein Perella Group, Mr. Wasserstein was the Co-Head of Investment Banking at The First Boston Corporation. Prior to joining First Boston, Mr. Wasserstein was an attorney at Cravath, Swaine & Moore. Mr. Wasserstein also currently serves as Chairman of Wasserstein & Co., LP, a private merchant bank, and is a member of the board of directors of Harry & David Holdings, Inc.

Michael J. Castellano, 61

Mr. Castellano has served as Chief Financial Officer of Lazard Ltd since May 2005. Mr. Castellano has served as a Managing Director and Chief Financial Officer of Lazard Group since August 2001. Prior to joining Lazard, Mr. Castellano held various senior management positions at Merrill Lynch & Co. from August 1991 to August 2001, including Senior Vice President Chief Control Officer for Merrill Lynch s capital markets businesses, Chairman of Merrill Lynch International Bank and Senior Vice President Corporate Controller. Prior to joining Merrill Lynch & Co., Mr. Castellano was a partner with Deloitte & Touche where he served a number of investment banking clients over the course of his 24 years with the firm.

Steven J. Golub, 62

Mr. Golub has served as Vice Chairman of Lazard Ltd and Chairman of the Financial Advisory Group of Lazard Ltd since May 2005. Mr. Golub has served as Vice Chairman of Lazard Group since October 2004 and as a Managing Director of Lazard Group since January 1986. Mr. Golub previously served as Chief Financial Officer from July 1997 to August 2001. Mr. Golub also served as a Senior Vice President of

Lazard from May 1984 to January 1986. Prior to joining Lazard, Mr. Golub was a Partner at Deloitte Haskins & Sells from July 1980 to May 1984. Prior to joining Deloitte Haskins & Sells, he served as the Deputy Chief Accountant in the Chief Accountant s Office of the Securities and Exchange Commission from January 1979 to June 1980. Mr. Golub currently serves on the board of directors of Minerals Technologies Inc.

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Scott D. Hoffman, 45

Mr. Hoffman has served as General Counsel of Lazard Ltd since May 2005. Mr. Hoffman has served as a Managing Director of Lazard Group since January 1999 and General Counsel of Lazard Group since January 2001. Mr. Hoffman previously served as Vice President and Assistant General Counsel from February 1994 to December 1997 and as a Director from January 1998 to December 1998. Prior to joining Lazard, Mr. Hoffman was an attorney at Cravath, Swaine & Moore.

Charles G. Ward, III, 55

Mr. Ward has served as President of Lazard Ltd and Chairman of the Asset Management Group of Lazard Ltd since May 2005. Mr. Ward has served as President and a Managing Director of Lazard Group since February 2002. Prior to joining Lazard, he was variously the Head or Co-Head of Global Investment Banking and Private Equity of Credit Suisse First Boston, or CSFB, from February 1994 to February 2002. Mr. Ward also served as a member of the Executive Board of CSFB from February 1994 to February 2002 and as President of CSFB from April 2000 to November 2000. Prior to joining CSFB, Mr. Ward co-founded Wasserstein Perella Group in February 1988 and served as President of Wasserstein Perella & Co. from January 1990 to February 1994. Prior to serving at Wasserstein Perella & Co., Mr. Ward was Co-Head of Mergers and Acquisitions and the Media Group at The First Boston Corporation where he worked from July 1979 to February 1988. Mr. Ward currently serves on the board of directors of Sapphire Industrials Corp.

Where You Can Find Additional Information

Lazard Ltd files current, annual and quarterly reports, proxy statements and other information required by the Securities Exchange Act of 1934, as amended (the Exchange Act), with the SEC. You may read and copy any document the company files at the SEC s public reference room located at 100 F Street, N.E., Washington, D.C. 20549, U.S.A. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The Company s SEC filings are also available to the public from the SEC s internet site at *http://www.sec.gov.* Copies of these reports, proxy statements and other information can also be inspected at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005, U.S.A.

Our public internet site is *http://www.lazard.com.* and the investor relations section of our public internet site is located at *http://www.lazard.com/InvestorRelations/SEC-Filings.aspx.* We will make available free of charge, on or through the investor relations section of our internet site, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and Forms 3, 4 and 5 filed on behalf of directors and executive officers and any amendments to those reports filed or furnished pursuant to the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Also posted on our website, and available in print upon request of any shareholder to the Investor Relations Department, are charters for the Company s Audit Committee, Compensation Committee and Nominating & Governance Committee. Copies of these charters and our Corporate Governance Guidelines and Code of Business Conduct and Ethics governing our directors, officers and employees are also posted on our website in the Corporate Governance section.

Item 1A. Risk Factors

You should carefully consider the following risks and all of the other information set forth in this annual report, including our consolidated financial statements and related notes. The risk factors set forth below primarily relate to the business of Lazard Group. These risks also affect

Lazard Ltd because Lazard Ltd has no material assets as of December 31, 2007 other than indirect ownership of approximately 48.3% of the common membership interests in Lazard Group and its controlling interest in Lazard Group. The following risks comprise material risks of which we are aware. If any of the events or developments described below actually occurred, our business, financial condition or results of operations would likely suffer.

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Our ability to retain our managing directors and other key professional employees is critical to the success of our business, including maintaining compensation levels at an appropriate level of costs, and failure to do so may materially adversely affect our results of operations and financial position.

Our people are our most important resource. We must retain the services of our managing directors and other key professional employees, and strategically recruit and hire new talented employees, to obtain and successfully execute the advisory and asset management engagements that generate substantially all our revenue.

Lazard Group has experienced several significant events in recent years, including our transformation from a private to a public company. In general, our industry continues to experience change and exerts competitive pressures for retaining top talent, which makes it more difficult for us to retain professionals. If any of our managing directors and other key professional employees were to join an existing competitor, form a competing company or otherwise leave us, some of our clients could choose to use the services of that competitor or some other competitor instead of our services. The employment arrangements, non-competition agreements and retention agreements we have entered into with our managing directors and other key professional employees may not prevent our managing directors and other key professional employees from resigning from practice or competing against us. In addition, these arrangements and agreements have a limited duration and will expire after a certain period of time. Since our transformation to a public company, we continue to be subject to the intense competition in the financial services industry regarding the recruitment and retention of key professionals, and have experienced a few departures from and added to our professional ranks as a result. In connection with our transformation to a public company we adopted a compensation policy that provides that our employee compensation and benefits expense, including amounts payable to our managing directors, will not exceed 57.5% of operating revenue (although we retain the ability to change this policy in the future). For the year ended December 31, 2007, such employee compensation and benefits expenses was 55.7% of operating revenue, including amortization of restricted stock unit grants under our 2005 Equity Incentive Plan which starts at the date of grant.

During periods of favorable market conditions we would expect to be able to achieve this target without negatively impacting the financial packages for our managing directors and other key employees. However, during periods of adverse market conditions, we may face additional retention pressures as a result of potential reductions in payments for services rendered by our managing directors and other key employees. Also, the expiration in May, 2008 of the initial transfer restrictions on the LAZ-MD Holdings exchangeable interests held by our managing directors may create additional retention pressures. Furthermore, as a result of the intense competition for financial services professionals, we, like our competitors, may not be able to retain each of the key employees and managing directors that we desire to keep and, even if we can, we may not be able to retain them at compensation levels that will allow us to achieve our target ratio of compensation expense-to-operating revenue.

Difficult market conditions can adversely affect our business in many ways, including by reducing the volume of the transactions involving our Financial Advisory business and reducing the value or performance of the assets we manage in our Asset Management business, which, in each case, could materially reduce our revenue or income and adversely affect our financial position.

As a financial services firm, our businesses are materially affected by conditions in the global financial markets and economic conditions throughout the world. For example, revenue generated by our Financial Advisory business is directly related to the volume and value of the transactions in which we are involved. During periods of unfavorable market or economic conditions, the volume and value of mergers and acquisitions transactions may decrease, thereby reducing the demand for our Financial Advisory services and increasing price competition among financial services companies seeking such engagements. Our results of operations would be adversely affected by any such reduction in the volume or value of mergers and acquisitions transactions. In addition, our profitability would be adversely affected by our fixed costs and the possibility that we would be unable to scale back other costs within a time frame sufficient to match any decreases in revenue relating to

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changes in market and economic conditions. The future market and economic climate may deteriorate because of many factors, including rising interest rates or inflation, terrorism or political uncertainty.

Within our Financial Advisory business, we have typically seen that, during periods of economic strength and growth, our Mergers and Acquisitions practice historically has been more active and our Financial Restructuring practice has been less active. Conversely, during periods of economic weakness and slowdown, we typically have seen that our Financial Restructuring practice has been more active and our Mergers and Acquisitions practice has been less active. As a result, our revenue from our Financial Restructuring practice has tended to correlate negatively to our revenue from our Mergers and Acquisitions practice over the course of business cycles. These trends are cyclical in nature and subject to periodic reversal. However, these trends do not cancel out the impact of economic conditions in our Financial Advisory business, which may be adversely affected by a downturn in economic conditions leading to decreased Mergers and Acquisitions practice activity, notwithstanding improvements in our Financial Restructuring practice. Moreover, revenue improvements in our Mergers and Acquisitions practice in strong economic conditions could be offset in whole or in part by any related revenue declines in our Financial Restructuring practice. While we generally have experienced a counter-cyclical relationship between our Mergers and Acquisitions practice and our Financial Restructuring practice, this relationship may not continue in the future.

Our Asset Management business also would be expected to generate lower revenue in a market or general economic downturn. Under our Asset Management business arrangements, investment advisory fees we receive typically are based on the market value of AUM. Accordingly, a decline in the prices of securities would be expected to cause our revenue and income to decline by:

- causing the value of our AUM to decrease, which would result in lower investment advisory fees,
- causing negative absolute performance returns for some accounts which have performance-based incentive fees, which would result in a reduction of revenue from such fees, or
- causing some of our clients to withdraw funds from our Asset Management business in favor of investments they perceive as offering greater opportunity or lower risk, which also would result in lower investment advisory fees.

If our Asset Management revenue declines without a commensurate reduction in our expenses, our net income will be reduced. In addition, in the event of a market downturn, our alternative investment and private equity practice also may be impacted by reduced exit opportunities in which to realize the value of its investments.

A majority of our revenue is derived from Financial Advisory fees, which are not long-term contracted sources of revenue and are subject to intense competition, and declines in our Financial Advisory engagements could have a material adverse effect on our financial condition and results of operations.

We historically have earned a substantial portion of our revenue from advisory fees paid to us by our Financial Advisory clients, which fees usually are payable upon the successful completion of a particular transaction or restructuring. For example, for the year ended December 31, 2007, Financial Advisory services accounted for approximately 64% of our consolidated net revenue. We expect that we will continue to rely on Financial Advisory fees for a substantial portion of our revenue for the foreseeable future, and a decline in our advisory engagements or the market for advisory services would adversely affect our business, financial condition and results of operations.

In addition, we operate in a highly competitive environment where typically there are no long-term contracted sources of revenue. Each revenue-generating engagement typically is separately awarded and negotiated. Furthermore, many businesses do not routinely engage in transactions requiring our services, and, as a consequence, our fee paying engagements with many clients are not likely to be predictable. We also lose clients each year as a result of the sale or merger of a client, a change in a client s senior management, competition from other financial advisors and financial institutions and other causes. As a result, our engagements with clients are constantly changing, and our Financial Advisory fees could decline quickly due to the factors discussed above.

There will not be a consistent pattern in our financial results from period to period, which may make it difficult for us to achieve steady earnings growth on a quarterly basis.

We experience significant fluctuations in revenue and profits. These fluctuations generally can be attributed to the fact that we earn a significant portion of our Financial Advisory revenue upon the successful completion of a merger or acquisition transaction or a restructuring, the timing of which is uncertain and is not subject to our control. In addition, our Asset Management revenue is particularly sensitive to fluctuations in our AUM. Asset Management fees are often based on AUM as of the end of a quarter or month. As a result, a reduction in assets at the end of a quarter or month (as a result of market depreciation, withdrawals or otherwise) will result in a decrease in management fees. Similarly, timing of flows, contributions and withdrawals are often out of our control and may be inconsistent from quarter to quarter. As a result of quarterly fluctuations, it may be difficult for us to achieve steady earnings growth on a quarterly basis.

In many cases, we are paid for advisory engagements only upon the successful consummation of the underlying merger or acquisition transaction or restructuring. As a result, our Financial Advisory business is highly dependent on market conditions and the decisions and actions of our clients, interested third parties and governmental authorities. For example, a client could delay or terminate an acquisition transaction because of a failure to agree upon final terms with the counterparty, failure to obtain necessary regulatory consents or board of directors or stockholder approvals, failure to secure necessary financing, adverse market conditions or because the target s business is experiencing unexpected operating or financial problems. Anticipated bidders for assets of a client during a restructuring transaction may not materialize or our client may not be able to restructure its operations or indebtedness, for example, due to a failure to reach agreement with its principal creditors. In these circumstances, we often do not receive any advisory fees other than the reimbursement of certain expenses despite the fact that we devote resources to these transactions. Accordingly, the failure of one or more transactions to close either as anticipated or at all could materially adversely affect our business, financial condition or results of operations. For more information, see Management s Discussion and Analysis of Financial Condition and Results of Operations.

If the number of debt defaults, bankruptcies or other factors affecting demand for our Financial Restructuring services declines, or we lose business to certain new entrants to the financial restructuring advisory practice who are no longer precluded from offering such services due to changes to the U.S. Bankruptcy Code, our Financial Restructuring practice s revenue could suffer.

We provide various financial restructuring and restructuring-related advice to companies in financial distress or to their creditors or other stakeholders. Historically, the fees from financial restructuring related services have been a significant part of our Financial Advisory revenue. A number of factors affect demand for these advisory services, including general economic conditions, the availability and cost of debt and equity financing and changes to laws, rules and regulations, including deregulation or privatization of particular industries and those that protect creditors.

Section 327 of the U.S. Bankruptcy Code requires that disinterested persons be employed in a restructuring. The definition of disinterested person has been modified. As previously in effect, certain of our competitors were disqualified from being employed in restructurings as a result of their status as an underwriter of securities. This basis for disqualification, however, no longer applies. Historically, we were not often disqualified from obtaining a role in a restructuring because we have not been a significant underwriter of securities. The change of the disinterested person definition allows for more financial services firms to compete for restructuring engagements and make recruiting and retaining of professionals more difficult. If our

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competitors succeed in being retained in new restructuring engagements, our Financial Restructuring practice, and thereby our results of operations, could be materially adversely affected.

We could lose clients and suffer a decline in our Asset Management revenue and earnings if the investments we choose in our Asset Management business perform poorly or if we lose key employees, regardless of overall trends in the prices of securities.

Investment performance affects our AUM relating to existing clients and is one of the most important factors in retaining clients and competing for new Asset Management business. Poor investment performance could impair our revenue and growth because:

- existing clients might withdraw funds from our Asset Management business in favor of better performing products, which would result in lower investment advisory fees,
- our incentive fees, which provide us with a set percentage of returns on some alternative investment and private equity funds and other accounts, would decline,
- third-party financial intermediaries, advisors or consultants may rate our products poorly, which may result in client withdrawals and reduced asset flows from these third parties or their clients, or
- firms with which we have strategic alliances may terminate such relationships with us, and future strategic alliances may be unavailable.

If key employees were to leave our Asset Management business, whether to join a competitor or otherwise, we may suffer a decline in revenue or earnings and suffer an adverse effect on our financial position. Loss of key employees may occur due to perceived opportunity for promotion, increased compensation, work environment or other individual reasons, some of which may be beyond our control.

Our investment style in our Asset Management business may underperform other investment approaches, which may result in significant client or asset departures or a reduction in AUM.

Even when securities prices are rising generally, performance can be affected by investment style. Many of the equity investment strategies in our Asset Management business share a common investment orientation towards fundamental security selection. We believe this style tends to outperform the market in some market environments and underperform it in others. In particular, a prolonged growth environment may cause certain investment strategies to go out of favor with some clients, consultants or third-party intermediaries. In combination with poor performance relative to peers, changes in personnel, extensive periods in particular market environments or other difficulties, this may result in significant client or asset departures or a reduction in AUM.

Because our clients can remove the assets we manage on short notice, we may experience unexpected declines in revenue and profitability.

Our investment advisory contracts are generally terminable upon very short notice. Institutional and individual clients, and firms with which we have strategic alliances, can terminate their relationship with us, reduce the aggregate amount of AUM or shift their funds to other types of accounts with different rate structures for a number of reasons, including investment performance, changes in prevailing interest rates and financial market performance. Poor performance relative to other investment management firms tends to result in decreased investments in our investment products, increased redemptions of our investment products, and the loss of institutional or individual accounts or strategic alliances. In addition, the ability to terminate relationships may allow clients to renegotiate for lower fees paid for asset management services.

In addition, in the U.S., as required by the Investment Company Act, each of our investment advisory contracts with the mutual funds we advise or subadvise automatically terminates upon its assignment. Each of our other investment advisory contracts subject to the provisions of the Investment Advisers Act provide, as

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required by the act, that the contract may not be assigned without the consent of the customer. A sale of a sufficiently large block of shares of our voting securities or other transactions could be deemed an assignment in certain circumstances. An assignment, actual or constructive, would trigger these termination provisions and could adversely affect our ability to continue managing client accounts.

Access to clients through intermediaries is important to our Asset Management business, and reductions in referrals from such intermediaries or poor reviews of our products or our organization by such intermediaries could materially reduce our revenue and impair our ability to attract new clients.

Our ability to market our Asset Management services relies in part on receiving mandates from the client base of national and regional securities firms, banks, insurance companies, defined contribution plan administrators, investment consultants and other intermediaries. To an increasing extent, our Asset Management business uses referrals from accountants, lawyers, financial planners and other professional advisors. The inability to have this access could materially adversely affect our Asset Management business. In addition, many of these intermediaries review and evaluate our products and our organization. Poor reviews or evaluations of either the particular product or of us may result in client withdrawals or an inability to attract new assets through such intermediaries.

Our historical alternative investment activities involve increased levels of investments in relatively high-risk, illiquid assets, and we may lose some or all of the principal amount that we invest in these activities or fail to realize any profits from these activities for a considerable period of time.

We intend to expand our participation in alternative investment activities through investments in new and successor funds, and we may exercise our option under the business alliance agreement between Lazard Group and LFCM Holdings to acquire the alternative investment business and related principal investments from LFCM Holdings.

The revenue from this business is derived primarily from management fees calculated as a percentage of AUM and incentive fees, which are earned if investments are profitable over a specified threshold. Our ability to form new alternative investment funds is subject to a number of uncertainties, including past performance of our funds, market or economic conditions, competition from other fund managers and the ability to negotiate terms with major investors. In addition, the payments we are entitled to receive from LFCM Holdings under the terms of the business alliance agreement in respect of our continued involvement with LFCM Holdings are based on the carried interests received in connection with LFCM Holdings-managed funds.

In addition, we expect to make principal investments in new alternative investments (including private equity funds and special purpose acquisition companies), that may be established by us or by LFCM Holdings, and to continue to hold principal investments in several funds managed by LFCM Holdings. The kinds of investments made by these funds are generally in relatively high-risk, illiquid assets. Contributing capital to these funds is risky, and we may lose some or all of the principal amount of our investments. Because it may take several years before attractive investment opportunities are identified, some or all of the capital committed by us to these funds is likely to be invested in government securities, other short-term, highly rated debt securities and money market funds that traditionally have offered investors relatively lower returns. In addition, the investments in these funds are adjusted for accounting purposes to fair market value at the end of each quarter, and our allocable share of these gains or losses will affect our revenue, even though such market fluctuations may have no cash impact, which could increase the volatility of our earnings. It takes a substantial period of time to identify attractive alternative investment opportunities, to raise all the funds needed to make an investment and then to realize the cash value of an investment through resale. Even if an alternative investment proves to be profitable, it may be several years or longer before any profits can be realized in cash or other proceeds.

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Our results of operations may be affected by market fluctuations related to positions held in our investment portfolios.

We invest capital in corporate and non-U.S. government debt securities in conjunction with the commercial banking activities of LFB and in equities in order to seed LAM equity and alternative investment funds, and for general corporate purposes. Such investments are subject to market fluctuations due to the change in the level of market prices of securities, rates or other market factors, such as liquidity. These investments are adjusted for accounting purposes to fair market value at the end of each quarter regardless of our intended holding period and the related gains or losses with respect to a substantial portion of the investments will affect our revenue and therefore may increase the volatility of our earnings, even though such gains or losses may not be realized.

We face strong competition from financial services firms, many of whom have the ability to offer clients a wider range of products and services than we can offer, which could lead to pricing pressures that could materially adversely affect our revenue and profitability.

The financial services industry is intensely competitive, and we expect it to remain so. We compete on the basis of a number of factors, including the quality of our employees, transaction execution, our products and services, innovation, reputation and price. We have experienced intense fee competition in some of our businesses in recent years, and we believe that we will experience pricing pressures in these and other areas in the future as some of our competitors seek to obtain increased market share by reducing fees.

We face increased competition due to a trend toward consolidation. In recent years, there has been substantial consolidation and convergence among companies in the financial services industry. In particular, a number of large commercial banks, insurance companies and other broad-based financial services firms have established or acquired broker-dealers or have merged with other financial institutions. Many of these firms have the ability to offer a wide range of products, from loans, deposit-taking and insurance to brokerage, asset management and investment banking services, which may enhance their competitive position. They also have the ability to support investment banking, including financial advisory services, with commercial banking, insurance and other financial services in an effort to gain market share, which could result in pricing pressure in our businesses.

An inability to access the debt and equity capital markets as a result of our debt and equity security obligations, credit ratings or other factors could impair our liquidity, increase our borrowing costs or otherwise adversely affect our competitive position or results of operations.

As of December 31, 2007, Lazard Group and its subsidiaries had approximately $1.8 billion in debt outstanding. This debt has certain mandated payment obligations, which may constrain our ability to operate our business. In addition, in the future we may need to incur debt or issue equity in order to fund our working capital requirements or refinance existing indebtedness, as well as to make acquisitions and other investments. We will also be required to remarket $437.5 million of debt associated with our ESUs in May, 2008. The amount of our debt obligations may impair our ability to raise debt or issue equity for financing purposes. Our access to funds also may be impaired if regulatory authorities take significant action against us, or if we discover that any of our employees had engaged in serious unauthorized or illegal activity. In addition, our borrowing costs and our access to the debt capital markets depend significantly on our credit ratings. These ratings are assigned by rating agencies, which may reduce or withdraw their ratings or place us on credit watch with negative implications at any time. Furthermore, the debt capital markets have experienced significant volatility in the recent past, which may make it difficult for us to issue or remarket debt at attractive yields. See Management s Discussion and Analysis of Financial Condition and Results of Operations.

We may pursue acquisitions or joint ventures that could present unforeseen integration obstacles or costs.

We routinely assess our strategic position and may in the future seek acquisitions or other transactions to further enhance our competitive position. We have in the past pursued joint ventures and other transactions aimed at expanding the geography and scope of our operations. For example, we have a cooperation arrangement with Natixis to promote mutually beneficial revenue production and sharing relating to cooperation activities. See Business Principal Business Lines Financial Advisory Relationship with Natixis. During 2007, we acquired all of the outstanding ownership interests of GAHL and CWC, we entered into a joint cooperation agreement with Raiffeisen and we entered into a shareholders agreement to acquire a 50% interest in MBA, with this transaction closing on January 31, 2008. We expect to continue to explore acquisitions and partnership or strategic alliance opportunities that we believe to be attractive.

Acquisitions and joint ventures involve a number of risks and present financial, managerial and operational challenges, including potential disruption of our ongoing business and distraction of management, difficulty with integrating personnel and financial and other systems, hiring additional management and other critical personnel and increasing the scope, geographic diversity and complexity of our operations. Our clients may react unfavorably to our acquisition and joint venture strategy, we may not realize any anticipated benefits from acquisitions, we may be exposed to additional liabilities of any acquired business or joint venture, and we may not be able to renew on similar terms (or at all) previously successful joint ventures or similar arrangements, any of which could materially adversely affect our revenue and results of operations.

Employee misconduct could harm us by impairing our ability to attract and retain clients and subjecting us to significant legal liability and reputational harm, and this type of misconduct is difficult to detect and deter.

There have been a number of highly publicized cases involving fraud or other misconduct by employees in the financial services industry generally, and we run the risk that employee misconduct could occur in our business as well. For example, misconduct by employees could involve the improper use or disclosure of confidential information, which could result in regulatory sanctions and serious reputational or financial harm. Our Financial Advisory business often requires that we deal with client confidences of great significance to our clients, improper use of which may harm our clients or our relationships with our clients. Any breach of our clients confidences as a result of employee misconduct may impair our ability to attract and retain Financial Advisory clients and may subject us to liability. Similarly, in our Asset Management business, we have authority over client assets, and we may, from time to time, have custody of such assets. In addition, we often have discretion to trade client assets on the client s behalf and must do so acting in the best interests of the client. As a result, we are subject to a number of obligations and standards, and the violation of those obligations or standards may adversely affect our clients and us. It is not always possible to deter employee misconduct, and the precautions we take to detect and prevent this activity may not be effective in all cases.

The financial services industry faces substantial litigation and regulatory risks, and we may face damage to our professional reputation and legal liability if our services are not regarded as satisfactory or for other reasons.

As a financial services firm, we depend to a large extent on our relationships with our clients and our reputation for integrity and high-caliber professional services to attract and retain clients. As a result, if a client is not satisfied with our services, such dissatisfaction may be more damaging to our business than to other types of businesses. Moreover, our role as advisor to our clients on important mergers and acquisitions or restructuring transactions involves complex analysis and the exercise of professional judgment, including, if appropriate, rendering fairness opinions in connection with mergers and other transactions.

In recent years, the volume of claims and amount of damages claimed in litigation and regulatory proceedings against financial advisors has been increasing. Our Financial Advisory activities may subject us to

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the risk of significant legal liabilities to our clients and third parties, including our clients stockholders, under securities or other laws for materially false or misleading statements made in connection with securities and other transactions and potential liability for the fairness opinions and other advice provided to participants in corporate transactions. In our Asset Management business, we make investment decisions on behalf of our clients which could result in substantial losses. This also may subject us to the risk of legal liabilities or actions alleging negligence, misconduct, breach of fiduciary duty or breach of contract. These risks often may be difficult to assess or quantify and their existence and magnitude often remain unknown for substantial periods of time. Our engagements typically include broad indemnities from our clients and provisions designed to limit our exposure to legal claims relating to our services, but these provisions may not protect us or may not be adhered to in all cases. We also are subject to claims arising from disputes with employees for alleged discrimination or harassment, among other things. These risks often may be difficult to assess or quantify, and their existence and magnitude often remain unknown for substantial periods of time. As a result, we may incur significant legal expenses in defending against litigation. Substantial legal liability or significant regulatory action against us could materially adversely affect our business, financial condition or results of operations or cause significant reputational harm to us, which could seriously harm our business.

Other operational risks may disrupt our businesses, result in regulatory action against us or limit our growth.

Our business is dependent on communications and information systems, including those of our vendors. Any failure or interruption of these systems, whether caused by fire, other natural disaster, power or telecommunications failure, act of terrorism or war or otherwise, could materially adversely affect our operating results. Although we have back-up systems in place, our back-up procedures and capabilities in the event of a failure or interruption may not be adequate.

Particularly in our Asset Management business, we rely heavily on our financial, accounting, trading, compliance and other data processing systems. We expect that we will need to review whether to continue to upgrade and expand the capabilities of these systems in the future to avoid disruption of, or constraints on, our operations. However, if any of these systems do not operate properly or are disabled, we could suffer financial loss, a disruption of our businesses, liability to clients, regulatory intervention or reputational damage. The inability of our systems to accommodate an increasing volume of transactions also could constrain our ability to expand our businesses.

Extensive regulation of our businesses limits our activities and results in ongoing exposure to the potential for significant penalties, including fines or limitations on our ability to conduct our businesses.

The financial services industry is subject to extensive regulation. We are subject to regulation by governmental and self-regulatory organizations in the jurisdictions in which we operate around the world. Many of these regulators, including U.S. and non-U.S. government agencies and self-regulatory organizations, as well as state securities commissions in the U.S., are empowered to conduct administrative proceedings that can result in censure, fine, the issuance of cease-and-desist orders or the suspension or expulsion of a broker-dealer from registration or memberships. The requirements imposed by our regulators are designed to ensure the integrity of the financial markets and to protect customers and other third parties who deal with us and are not designed to protect our stockholders. Consequently, these regulations often serve to limit our activities, including through net capital, customer protection and market conduct requirements.

We face the risk of significant intervention by regulatory authorities, including extended investigation and surveillance activity, adoption of costly or restrictive new regulations and judicial or administrative proceedings that may result in substantial penalties. Among other things, we could be fined or be prohibited from engaging in some of our business activities. In addition, the regulatory environment in which we operate is subject to modifications and further regulation. New laws or regulations or changes in the enforcement of existing laws or regulations applicable to us and our clients also may adversely affect our business, and our ability to function in this environment will depend on our ability to constantly monitor and react to these changes.

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The regulatory environment in which our clients operate may impact our business. For example, changes in antitrust laws or the enforcement of antitrust laws could affect the level of mergers and acquisitions activity and changes in state laws may limit investment activities of state pension plans.

In particular, for asset management businesses in general, there have been a number of highly publicized industry-wide regulatory inquiries. These inquiries have resulted in increased scrutiny in the industry and new rules and regulations for mutual funds, hedge funds and their investment managers. This regulatory scrutiny and rulemaking initiatives may result in an increase in operational and compliance costs or the assessment of significant fines or penalties against our Asset Management business, and may otherwise limit our ability to engage in certain activities.

Financial services firms are subject to numerous conflicts of interests or perceived conflicts. We have adopted various policies, controls and procedures to address or limit actual or perceived conflicts and regularly seek to review and update our policies, controls and procedures. However, these policies and procedures may result in increased costs, additional operational personnel and increased regulatory risk. Failure to adhere to these policies and procedures may result in regulatory sanctions or client litigation.

Specific regulatory changes also may have a direct impact on the revenue of our Asset Management business. In addition to regulatory scrutiny and potential fines and sanctions, regulators continue to examine different aspects of the asset management industry. For example, the use of soft dollars, where a portion of commissions paid to broker-dealers in connection with the execution of trades also pays for research and other services provided to advisors, continues to be examined and may in the future be limited or modified. Although a substantial portion of the research relied on by our Asset Management business in the investment decision-making process is generated internally by our investment analysts, external research, including external research paid for with soft dollars, is important to the process. This external research generally is used for information gathering or verification purposes, and includes broker-provided research, as well as third-party provided databases and research services. For the year ended December 31, 2007, our Asset Management business obtained research and other services through soft dollar arrangements, the total cost of which we estimate to be approximately $14.9 million. If the use of soft dollars is limited, we may have to bear some of these costs. In addition, new regulations regarding the management of hedge funds may impact our Asset Management business and result in increased costs. These regulatory changes and other proposed or potential changes, may result in a reduction of revenue associated with our Asset Management business.

See Business Regulation for a further discussion of the regulatory environment in which we conduct our businesses.

Fluctuations in foreign currency exchange rates could lower our net income or negatively impact the portfolios of our Asset Management clients and may affect the levels of our AUM.

We are exposed to fluctuations in foreign currencies. Our financial statements are denominated in U.S. dollars and, for the year ended December 31, 2007, we received approximately 49% of our consolidated net revenue in other currencies, predominantly in euros and British pounds. In addition, we pay a significant amount of our expenses in such other currencies. The exchange rates of these currencies versus the U.S. dollar may affect our net income. We do not generally hedge such non-dollar foreign exchange rate exposure arising in our subsidiaries outside of the U.S. Fluctuations in foreign currencies may also make period to period comparisons of our results of operations difficult.

Foreign currency fluctuations also can impact the portfolios of our Asset Management clients. Client portfolios are invested in securities across the globe, although most portfolios are in a single base currency. Foreign currency fluctuations can adversely impact investment performance for a client s portfolio. In addition, foreign currency fluctuations may affect the levels of our AUM. As our AUM include significant assets that are denominated in currencies other than U.S. dollars, an increase in the value of the U.S. dollar relative to non-U.S. currencies may result in a decrease in the dollar value of our AUM, which, in turn, would result in lower U.S.

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dollar denominated revenue in our Asset Management business. While this risk may be limited by foreign currency hedging, some risks cannot be hedged and our hedging activity may not be successful. Poor performance may result in decreased AUM, including as a result of withdrawal of client assets or a decrease in new assets being raised in the relevant product.

Our only material asset is our indirect interests in Lazard Group, and, accordingly, we are dependent upon distributions from Lazard Group to pay dividends and taxes and other expenses.

Lazard Ltd is a holding company and, as of December 31, 2007, had no material assets other than the indirect ownership of approximately 48.3% of the common membership interests in Lazard Group and indirect control of both of the managing members of Lazard Group. Lazard Ltd controls Lazard Group through this managing member position. We have no independent means of generating significant revenue. Our wholly-owned subsidiaries incur income taxes on their proportionate share of any net taxable income of Lazard Group in their respective tax jurisdictions. We intend to continue to cause Lazard Group to make distributions to its members, including our wholly-owned subsidiaries, in an amount sufficient to cover all applicable taxes payable by us and dividends, if any, declared by us. To the extent that our subsidiaries need funds to pay taxes on their share of Lazard Group s net taxable income, or if Lazard Ltd needs funds for any other purpose, and Lazard Group is restricted from making such distributions under applicable law or regulation, or is otherwise unable to provide such funds, it could materially adversely affect our business, financial condition or results of operations.

Earnings of Lazard Group allocable to LAZ-MD Holdings are taxed at higher tax rates than earnings allocable to Lazard Ltd, which results in less cash being available to Lazard Group than would otherwise be available to it.

The managing directors of Lazard Group and other owners of LAZ-MD Holdings generally are taxed at a higher rate on their allocable share of Lazard Group s earnings than that paid by Lazard Ltd. Lazard Group makes tax-related distributions based on the higher of the effective income and franchise tax rate applicable to Lazard Ltd s subsidiaries that hold the Lazard Group common membership interests and the weighted average income tax rate (based on income allocated) applicable to LAZ-MD Holdings members, determined in accordance with Lazard Group s operating agreement. In the event that tax rates applicable to members of LAZ-MD Holdings increase, the pro rata distributions from Lazard Group to its members, including Lazard Ltd s subsidiaries, may increase correspondingly. Therefore, because distributions by Lazard Group to its members are made on a pro rata basis, tax-related distributions to Lazard Ltd s subsidiaries exceed the taxes Lazard Ltd s subsidiaries actually pay or expect to pay. This results in less cash being available to Lazard Group than would otherwise be available to it, and in cash being held by Lazard Ltd s subsidiaries in excess of what they actually pay for taxes or hold for expected future payments. We intend to lend to Lazard Group a significant portion of such excess cash.

We may become subject to taxes in Bermuda after March 28, 2016, which may have a material adverse effect on our results of operations.

The Bermuda Minister of Finance, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, as amended, has given us an assurance that if any legislation is enacted in Bermuda that would impose tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of any such tax will not be applicable to us or any of our operations, shares, debentures or other obligations until March 28, 2016, except insofar as such tax applies to persons ordinarily resident in Bermuda or to any taxes payable by us in respect of real property owned or leased by us in Bermuda. Given the limited duration of the Bermuda Minister of Finance s assurance, we may be subject to Bermuda tax after March 28, 2016.

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In the event of a change or adverse interpretation of relevant income tax law, regulation or treaty, or a failure to qualify for treaty benefits, our overall tax rate may be substantially higher than the rate used for purposes of our consolidated financial statements.

Our effective tax rate for 2007 is based upon the application of currently applicable income tax laws, regulations and treaties, current judicial and administrative authorities interpreting those income tax laws, regulations and treaties, and upon our non-U.S. subsidiaries ability to qualify for benefits under those treaties, and that a portion of their income is not subject to U.S. tax as effectively connected income. Moreover, those income tax laws, regulations and treaties, and the administrative and judicial authorities interpreting them, are subject to change at any time, and any such change may be retroactive.

Our effective tax rate for 2007 is based upon our non-U.S. subsidiaries qualifying for treaty benefits. The eligibility of our non-U.S. subsidiaries for treaty benefits generally depends upon, among other things, at least 50% of the principal class of shares in such subsidiaries being ultimately owned by U.S. citizens and persons that are qualified residents for purposes of the treaty. It is possible that this requirement may not be met, and even if it is met, we may not be able to document that fact to the satisfaction of the IRS. If our non-U.S. subsidiaries are not treated as eligible for treaty benefits, such subsidiaries will be subject to additional U.S. taxes, including branch profits tax on their effectively connected earnings and profits (as determined for U.S. federal income tax purposes) at a rate of 30% rather than a treaty rate of 5%.

The inability, for any reason, to achieve and maintain an overall income tax rate approximately equal to the rate used in preparing our consolidated financial statements could materially adversely affect our business and our results of operations and could materially adversely affect our financial statements.

Tax authorities may challenge our tax computations, including our transfer pricing methods, and their application.

In the ordinary course of our business, we are subject to tax audits in various jurisdictions. Tax authorities may challenge our tax computations, including our transfer pricing methods, and their application. While we believe our tax computations, including transfer pricing results, are correct and properly reflected on our financial statements, the tax authorities may disagree.

Recently introduced U.S. tax legislation would, if enacted in its proposed form, preclude Lazard Ltd from qualifying for treatment as a partnership for U.S. federal income tax purposes, which could impact our effective tax rate starting in 2013.

On June 14, 2007, the Chairman and the Ranking Republican Member of the United States Senate Committee on Finance introduced legislation that would tax as corporations those publicly traded partnerships that directly or indirectly derive any income from investment adviser or asset management services. This new legislation, if enacted in its proposed form, would be effective as of June 14, 2007, and, under a transition rule, it would apply to Lazard Ltd in respect of Lazard Ltd s taxable year beginning January 1, 2013. Such legislation, as proposed, may impact Lazard Ltd s U.S. tax liability. At this time we are unable to predict with any degree of certainty the impact, if any, this proposed legislation will have on our effective tax rate in 2013 and thereafter if it is enacted.

A number of our managing directors and other professional employees own rights to participate in the equity value, but not the earnings, in one of the principal operating subsidiaries of our Asset Management business, which could result in those persons receiving additional payments due to future actions with respect to that business.

Most of the managing directors of LAM and other LAM employees hold LAM equity units. These LAM equity units entitle their holders to payments in connection with selected fundamental transactions affecting

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Lazard Group or LAM, including a dissolution or a sale of all or substantially all of the assets of Lazard Group or LAM, a merger of, or sale of all of the interests in, LAM whereby Lazard Group ceases to own a majority of or have the right to appoint a majority of the board of directors of LAM, or a non-ordinary course sale of assets by LAM that exceeds $50 million in value.

As a general matter, in connection with a fundamental transaction that triggers the LAM equity units, the holders of the LAM equity units would be entitled in the aggregate, as of December 31, 2007, to approximately 23% of the net proceeds or imputed valuation of LAM in such transaction after deductions for payment to creditors of LAM and the return of capital in LAM. As of December 31, 2007, LAM s capital for these purposes totaled approximately $53 million, all of which is owned by Lazard Group. Holders of LAM equity units may not necessarily be employed by us at the time of such event, and, to the extent that their units were vested, they would remain entitled to any such payment. We have no current intention to cause or otherwise trigger a fundamental transaction that would give rise to payment obligations to holders of interests of LAM. The board of directors of LAM, a majority of which is appointed by us, may, in its discretion, grant, subject to specified vesting conditions, LAM equity interests that include profit rights to managing directors of, and other persons providing services to, LAM, as a portion of their ongoing compensation. No such LAM equity interests have been granted as of December 31, 2007, nor is there any present intention to do so. However, the provisions of the LAM limited liability company agreement that govern the LAM equity units may impair our ability to sell assets or securities of LAM in the future or otherwise limit our operational flexibility and could result in a substantial amount of consideration being payable to key employees of our Asset Management business, impairing our ability to retain these persons and adversely affecting our business, results of operations or financial condition.

The reorganization of our business from a privately held firm to a publicly traded company may adversely affect our ability to recruit, retain and motivate key employees.

In connection with the separation and recapitalization, most of the then working members received LAZ-MD Holdings exchangeable interests that will in the future be effectively exchangeable for shares of Lazard Ltd s common stock. The ownership of, and the ability to realize equity value from, these LAZ-MD Holdings exchangeable interests and underlying shares of Lazard Ltd s common stock is not dependent upon a managing director s continued employment with our company, and our managing directors are not restricted from leaving Lazard by the potential loss of the value of these membership interests. These shares of common stock, upon full exchange, will ultimately be a more liquid security than their former membership interests in Lazard Group.

The LAZ-MD Holdings exchangeable interests are subject to restrictions on transfer and the timing of exchange. Most of these restrictions on the timing of exchange will lapse in May, 2008. Managing directors who remain with Lazard through such date may subsequently leave Lazard without losing their right to early exchangeability of their LAZ-MD Holdings exchangeable interests. In addition, those managing directors who had capital interests and rights at Lazard Group that were exchanged in the separation for capital interests and rights in LAZ-MD Holdings, had an aggregate of 50% of those LAZ-MD Holdings capital interests and rights redeemed in May, 2006 and had the remainder redeemed in May, 2007. The steps we have taken to encourage the continued service of these individuals may not be effective.

Our financial performance depends on our ability to achieve our target compensation expense level, and the failure to achieve this target level may materially adversely affect our results of operations and financial position.

A key driver of our profitability is our ability to generate revenue while achieving our compensation expense levels. We intend to operate at or below our target level of compensation and benefits expense. Our policy is that our compensation and benefits expense will not exceed 57.5% of operating revenue each year. Compensation and benefits expense was 55.7%, 56.7% and 57.0% of operating revenue for the years ended December 31, 2007, 2006 and 2005, respectively (with the 2005 percentage being pro forma to exclude amounts relating to the separated businesses, but including payments for minority interest for services rendered by LAM

managing directors and employee members of LAM and services rendered by other managing directors). Increased competition for senior professionals, changes in the financial markets generally or other factors could prevent us from continuing to maintain this objective. Failure to achieve this target ratio may materially adversely affect our results of operations and financial position.

Lazard Ltd is controlled by LAZ-MD Holdings and, through the amended and restated LAZ-MD Holdings stockholders agreement, by certain of our managing directors, whose interests may differ from those of other stockholders and our note holders.

LAZ-MD Holdings holds Lazard Ltd s Class B common stock. Pursuant to the LAZ-MD Holdings stockholders agreement, the members of LAZ-MD Holdings party to that agreement are individually entitled to direct LAZ-MD Holdings how to vote their proportionate interest in Lazard Ltd s Class B common stock on an as-if-exchanged basis. The voting power associated with the Class B common stock is intended to mirror the members indirect economic interest in Lazard Group. Through the LAZ-MD Holdings stockholders agreement, the members currently are able to effectively exercise control over all matters requiring stockholder approval, including the election of all directors and approval of significant corporate transactions, and other matters affecting the members. This voting power may have the effect of delaying or preventing a change in control of Lazard Ltd.

Failure to maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our business.

We have documented and tested our internal control procedures in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act, which requires annual management assessments of the effectiveness of our internal controls over financial reporting and a report by our independent auditors regarding the Company s internal control over financial reporting. We are in compliance with Section 404 of the Sarbanes-Oxley Act as of December 31, 2007. However, if we fail to maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Failure to maintain an effective internal control environment could have a material adverse effect on our business.

LAZ-MD Holdings, Lazard Group, LFCM Holdings and Lazard Ltd entered into various arrangements, including the master separation agreement, which contain cross-indemnification obligations of LAZ-MD Holdings, Lazard Group, LFCM Holdings and Lazard Ltd, that any party may be unable to satisfy.

The master separation agreement that Lazard Ltd entered into with Lazard Group, LAZ-MD Holdings and LFCM Holdings provides, among other things, that LFCM Holdings generally will indemnify Lazard Ltd, Lazard Group and LAZ-MD Holdings for losses that we incur arising out of, or relating to, the separated businesses and the businesses conducted by LFCM Holdings and losses that Lazard Ltd, Lazard Group or LAZ-MD Holdings incur arising out of, or relating to, LFCM Holdings breach of the master separation agreement. In addition, LAZ-MD Holdings generally will indemnify Lazard Ltd, Lazard Group and LFCM Holdings for losses that they incur arising out of, or relating to, LAZ-MD Holdings breach of the master separation agreement. Our ability to collect under the indemnities from LAZ-MD Holdings or LFCM Holdings depends on their financial position. For example, persons may seek to hold us responsible for liabilities assumed by LAZ-MD Holdings or LFCM Holdings. If these liabilities are significant and we are held liable for them, we may not be able to recover any or all of the amount of those losses from LAZ-MD Holdings or LFCM Holdings should either be financially unable to perform under their indemnification obligations.

We currently have a number of ongoing obligations in respect of which, pursuant to the master separation agreement and other ancillary agreements, LFCM Holdings is providing certain indemnities. For example, we entered into an arrangement with LFCM Holdings relating to the costs of excess space in the U.K. LFCM Holdings will pay to Lazard Group $25 million in the aggregate, of which $17.3 million was due and paid through December 31, 2007.

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In addition, Lazard Group generally will indemnify LFCM Holdings and LAZ-MD Holdings for liabilities related to Lazard Group s businesses and Lazard Group will indemnify LFCM Holdings and LAZ-MD Holdings for losses that they incur to the extent arising out of, or relating to, Lazard Group s or Lazard Ltd s breach of the master separation agreement. Several of the ancillary agreements that Lazard Group entered into together with the master separation agreement also provide for separate indemnification arrangements. For example, under the administrative services agreement, Lazard Group provides a range of services to LFCM Holdings, including information technology, general office and building services and financing and accounting services, and LFCM Holdings will generally indemnify Lazard Group for liabilities that Lazard Group incurs arising from the provision of these services absent Lazard Group s intentional misconduct. Lazard Group may face claims for indemnification from LFCM Holdings and LAZ-MD Holdings under these provisions regarding matters for which Lazard Group has agreed to indemnify them. If these liabilities are significant, Lazard Group may be required to make substantial payments, which could materially adversely affect our results of operations.

We have potential conflicts of interest with LAZ-MD Holdings and LFCM Holdings, and LAZ-MD Holdings and LFCM Holdings could each act in a way that favors its interests to our detriment.

As of December 31, 2007, LAZ-MD Holdings held approximately 51.7% of Lazard Ltd s voting power through Lazard Ltd s single share of Class B common stock and 51.7% of the outstanding Lazard Group common membership interests. In addition, LAZ-MD Holdings board of directors is composed of five individuals, all of whom are managing directors or officers of Lazard Ltd or its affiliates, including its Vice Chairman and its President. Lazard Group s board of directors and executive officers are the same as those of Lazard Ltd. The voting and equity ownership of LAZ-MD Holdings and its members, and the service of officers and managing directors of our company as directors of LAZ-MD Holdings, could create conflicts of interest when LAZ-MD Holdings and those directors and officers are faced with decisions that could have different implications for LAZ-MD Holdings and us, including potential acquisitions of businesses, the issuance or disposition of securities by us, the election of new or additional directors of Lazard Ltd, the payment of dividends by Lazard Ltd and Lazard Group, our relationship with LFCM Holdings and other matters. We also expect that LAZ-MD Holdings will manage its ownership of us so that it will not be deemed to be an investment company under the Investment Company Act, including by maintaining its voting power in Lazard Ltd above 25% absent an applicable exemption or exclusion from the Act. This may result in conflicts with us, including those relating to acquisitions or offerings by us involving issuances of Lazard Ltd s common stock or securities convertible or exchangeable into shares of Lazard Ltd s common stock that would dilute LAZ-MD Holdings voting power in Lazard Ltd.

Since the members of LAZ-MD Holdings who are parties to the LAZ-MD Holdings stockholders agreement are entitled to individually direct their proportionate share of the vote of Lazard Ltd s Class B common stock on an as-if-exchanged basis and also own and control LFCM Holdings, their control of LAZ-MD Holdings and the vote of the share of Lazard Ltd s Class B common stock gives rise to potential conflicts between LFCM Holdings and LAZ-MD Holdings, on the one hand, and our company, on the other hand, as discussed below.

In addition, Mr. Wasserstein, our Chairman and Chief Executive Officer, serves as the Chairman and is the majority owner of Wasserstein Holdings, LLC, the ultimate general partner of Wasserstein & Co., LP, a separate merchant banking firm that may compete with LFCM Holdings or our alternative investment and private equity fund management activities.

We may have potential business conflicts of interest with LAZ-MD Holdings and LFCM Holdings with respect to our past and ongoing relationships that could harm our business operations.

Pursuant to the LAZ-MD Holdings amended and restated stockholders agreement, LAZ-MD Holdings will vote the single share of Lazard Ltd Class B common stock, which, as of December 31, 2007, represented approximately 51.7% of Lazard Ltd s voting power, as directed by its individual members who are party to that

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agreement. These same persons generally own and control LFCM Holdings, which holds the separated businesses. In addition, several employees of Lazard provide services to LFCM Holdings. Conflicts of interest may arise between LFCM Holdings and us in a number of areas relating to our past and ongoing relationships, including:

- labor, tax, employee benefits, indemnification and other matters arising from the separation,
- intellectual property matters,
- business combinations involving us,
- business operations or business opportunities of LFCM Holdings or us that would compete with the other party s business opportunities, including investment banking by us and the management of alternative investment funds by LFCM Holdings, particularly as some of the managing directors provide services to LFCM Holdings,
- the terms of the master separation agreement and related ancillary agreements, including the operation of the alternative investment fund management business and Lazard Group s option to purchase the business,
- the nature, quality and pricing of administrative services to be provided by us, and
- the provision of services by certain of our managing directors to LFCM Holdings.

In addition, the administrative services agreement commits us to provide a range of services to LFCM Holdings and LAZ-MD Holdings, which could require the expenditure of significant amounts of time by our management. Our agreements with LAZ-MD Holdings and LFCM Holdings may be amended upon agreement of the parties to those agreements. During the time that we are controlled by LAZ-MD Holdings, LAZ-MD Holdings may be able to require us to agree to amendments to these agreements. We may not be able to resolve any potential conflicts and, even if we do, the resolution may be less favorable to us than if we were dealing with an unaffiliated party.

The use of the Lazard brand name by subsidiaries of LFCM Holdings may expose us to reputational harm that could affect our operations and adversely affect our financial position should these subsidiaries take actions that damage the brand name.

The Lazard brand name has 160 years of heritage, connoting, we believe, world-class professional advice, independence and global capabilities with deeply rooted, local know-how. LFCM Holdings operates as a separate legal entity, and Lazard Group licensed to subsidiaries of LFCM Holdings that operate the separated businesses the use of the Lazard brand name for certain specified purposes, including in connection with alternative investment fund management and capital markets activities. As these subsidiaries of LFCM Holdings historically have and will continue to use the Lazard brand name, and because we no longer control these entities, there is a risk of reputational harm to us if these subsidiaries have, or in the future were to, among other things, engage in poor business practices, experience adverse results or otherwise damage the reputational value of the Lazard brand name. These risks could expose us to liability and also may adversely affect our revenue and our business prospects.

Our subsidiaries will be required to pay LFCM Holdings for most of the benefit relating to any additional tax depreciation or amortization deductions our subsidiaries may claim as a result of the tax basis step-up our subsidiaries receive in connection with the equity public offering and related transactions.

In connection with our secondary offering in December, 2006, LAZ-MD Holdings exchangeable interests were, in effect, partially exchanged for shares of our common stock. Additional exchanges are scheduled to take place in the future. The redemption and the exchanges may result in increases in the tax basis of the tangible and intangible assets of Lazard Group attributable to our subsidiaries interest in Lazard Group that otherwise would not have been available. These increases in tax basis may reduce the amount of tax that our subsidiaries would otherwise be required to pay in the future, although the IRS may challenge all or part of that tax basis increase, and a court could sustain such a challenge.

Our subsidiaries entered into a tax receivable agreement with LFCM Holdings that provides for the payment by our subsidiaries to LFCM Holdings of 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax or franchise tax that we actually realize as a result of these increases in tax basis and of certain other tax benefits related to entering into the tax receivable agreement, including tax benefits attributable to payments under the tax receivable agreement. We expect to benefit from the remaining 15% of cash savings realized. Our subsidiaries have the right to terminate the tax receivable agreement at any time for an amount based on an agreed value of certain payments remaining to be made under the tax receivable agreement at such time. While the actual amount and timing of any payments under this agreement will vary depending upon a number of factors, including the timing of exchanges, the extent to which such exchanges are taxable, the allocation of the step-up among the Lazard Group assets, and the amount and timing of our income, we expect that, as a result of the size of the increases in the tax basis of the tangible and intangible assets of Lazard Group attributable to our subsidiaries interest in Lazard Group, during the 24-year term of the tax receivable agreement, the payments that our subsidiaries may make to LFCM Holdings could be substantial. If the LAZ-MD Holdings exchangeable interests had been effectively exchanged in a taxable transaction for common stock at the close of business on December 31, 2007, the aggregate increase in tax basis attributable to our subsidiaries interest in Lazard Group would have been approximately $3.4 billion (based on the then closing price per share of our common stock on the NYSE of $40.68), including the increase in tax basis associated with the redemption and recapitalization. The potential future increase in tax basis will depend on the Lazard common stock price at the time of exchange. The cash savings that our subsidiaries would actually realize as a result of this increase in tax basis likely would be significantly less than this amount multiplied by our effective tax rate due to a number of factors, including sufficient taxable income to absorb the increase in tax basis, the allocation of the increase in tax basis to foreign or non-amortizable assets, the impact of the increase in the tax basis on our ability to use foreign tax credits and the rules relating to the amortization of intangible assets. Our ability to achieve benefits from any such increase, and the payments to be made under this agreement, will depend upon a number of factors, as discussed above, including the timing and amount of our future income.

In addition, if the IRS successfully challenges the tax basis increase, under certain circumstances, our subsidiaries could make payments to LFCM Holdings under the tax receivable agreement in excess of our subsidiaries cash tax savings.

If Lazard Ltd were deemed an investment company under the Investment Company Act as a result of its ownership of Lazard Group, applicable restrictions could make it impractical for us to continue our business as contemplated and could materially adversely affect our business, financial condition and results of operation.

We do not believe that Lazard Ltd is an investment company under the Investment Company Act, because Lazard Ltd has the power to appoint and remove the Lazard Group managing members. If Lazard Ltd were to cease participation in the management of Lazard Group or not be deemed to have a majority of the voting power of Lazard Group, its interest in Lazard Group could be deemed an investment security for purposes of the Investment Company Act. Similarly, we do not believe that LAZ-MD Holdings is an investment company under the Investment Company Act, because LAZ-MD Holdings currently holds a majority of Lazard Ltd s voting power through Lazard Ltd s Class B common stock, and Lazard Ltd owns a majority of the voting power of Lazard Group. If LAZ-MD Holdings were to cease to hold a majority of the voting power of Lazard Ltd, or Lazard Ltd were to cease to hold a majority of the voting power of Lazard Group, LAZ-MD Holdings interests in Lazard Group could be deemed an investment security for purposes of the Investment Company Act. Generally, a person is an investment company if it owns investment securities having a value exceeding 40% of the value of its total assets (exclusive of U.S. government securities and cash items), absent an applicable

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exemption. Lazard Ltd has no material assets other than direct and indirect ownership of Lazard Group common membership interests and its controlling interest in Lazard Group. A determination that this investment was an investment security could result in Lazard Ltd being an investment company under the Investment Company Act and becoming subject to the registration and other requirements of the Investment Company Act. Similarly, LAZ-MD Holdings has no material assets other than its ownership of Lazard Group common membership interests, Lazard Ltd s Class B common stock and cash. If LAZ-MD Holdings were to cease to hold a majority of the voting power of Lazard Ltd, but continued to own more than 25% of the voting power, it intends to rely on Rule 3a-1 under the Investment Company Act. Rule 3a-1 provides an exclusion from registration as an investment company if a company meets both an asset and an income test and is not otherwise primarily engaged in an investment company business by, among other things, holding itself out to the public as such or by taking controlling interests in companies with a view to realizing profits through subsequent sales of these interests. Generally speaking, a company satisfies the asset test of Rule 3a-1 if it has no more than 45% of the value of its total assets (adjusted to exclude U.S. government securities and cash) in the form of securities other than interests in majority owned subsidiaries and companies which it primarily and actively controls. A company satisfies the income test of Rule 3a-1 if it has derived no more than 45% of its net income for its last four fiscal quarters combined from securities other than interests in majority owned subsidiaries and primarily and actively controlled companies, which it engages primarily in a business other than investing in securities. LAZ-MD Holdings believes that its ownership of more than 25% of the voting power of Lazard Ltd would allow it to rely on Rule 3a-1. A determination that LAZ-MD Holdings is not entitled to rely on Rule 3a-1 could result in LAZ-MD Holdings being an investment company, unless another exemption or exclusion is available, and becoming subject to the registration and other requirements of the Investment Company Act.

The Investment Company Act and the rules thereunder contain detailed prescriptions for the organization and operations of investment companies. Among other things, the Investment Company Act and the rules thereunder limit or prohibit transactions with affiliates, impose limitations on the issuance of debt and equity securities, prohibit the issuance of stock options, and impose certain governance requirements. Lazard Ltd intends to conduct its operations, and expects that LAZ-MD Holdings will conduct its operations, so that neither Lazard Ltd nor LAZ-MD Holdings, respectively, will be deemed to be an investment company under the Investment Company Act. However, if anything were to happen which would cause Lazard Ltd or LAZ-MD Holdings to be deemed to be an investment company under the Investment Company Act, requirements imposed by the Investment Company Act, including limitations on its or our capital structure, ability to transact business with affiliates (including LAZ-MD Holdings or us, as the case may be) and ability to compensate key employees, could make it impractical for us to continue our business as currently conducted, impair the agreements and arrangements, including the master separation agreement and related agreements and the transactions contemplated by those agreements, between and among Lazard Ltd, LAZ-MD Holdings, Lazard Group and LFCM Holdings or any combination thereof and materially adversely affect our business, financial condition and results of operations.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

We have made statements under the captions Business , Risk Factors, and Management s Discussion and Analysis of Financial Condition and Results of Operations and in other sections of this annual report on Form 10-K that are forward-looking statements. In some cases, you can identify these statements by forward-looking words such as may, might, will, should, expect, plan, anticipate, believe, estimate, or continue, and the negative of these terms and other comparable terminology. These forward-looking statements, which are subject to known and unknown risks, uncertainties and assumptions about us, may include projections of our future financial performance based on our growth strategies and anticipated trends in our business. These statements are only predictions based on our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements. In particular, you should consider the numerous risks and uncertainties outlined in Risk Factors, including the following:

- a decline in general economic conditions or the global financial markets,
- losses caused by financial or other problems experienced by third parties,
- losses due to unidentified or unanticipated risks,
- a lack of liquidity, i.e., ready access to funds, for use in our businesses, and
- competitive pressure.

These risks and uncertainties are not exhaustive. Other sections of this annual report may include additional factors, which could adversely impact our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for our management to predict all risks and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy or completeness of any of these forward-looking statements. You should not rely upon forward-looking statements as predictions of future events. We are under no duty to update any of these forward-looking statements after the date of this annual report to conform our prior statements to actual results or revised expectations and we do not intend to do so.

Forward-looking statements include, but are not limited to, statements about the:

- business possible or assumed future results of operations and operating cash flows,
- business strategies and investment policies,

business financing plans and the availability of short-term borrowing,

business competitive position,

future acquisitions, including the consideration to be paid and the timing of consummation,

potential growth opportunities available to our businesses,

recruitment and retention of our managing directors and employees,

target levels of compensation expense,

business potential operating performance, achievements, productivity improvements, efficiency and cost reduction efforts,

likelihood of success and impact of litigation,

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expected tax rate,

changes in interest and tax rates,

expectation with respect to the economy, securities markets, the market for mergers and acquisitions activity, the market for asset management activity and other industry trends,

effects of competition on our business, and

impact of future legislation and regulation on our business.

The Company is committed to providing timely and accurate information to the investing public, consistent with our legal and regulatory obligations. To that end, the Company uses its websites to convey information about our businesses, including the anticipated release of quarterly financial results, quarterly financial, statistical and business-related information, and the posting of updates of AUM in various mutual funds, hedge funds and other investment products managed by LAM and its subsidiaries. Monthly updates of these funds are posted to the LAM website *(www.lazardnet.com)* on the 3rd business day following the end of each month. Investors can link to Lazard Ltd, Lazard Group and their operating company websites through *http://www.lazard.com*. Our websites and the information contained therein or connected thereto shall not be deemed to be incorporated into this annual report.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The following table lists the properties used for the entire Lazard organization as of December 31, 2007, including properties used by the separated businesses. As a general matter, one or both of our Financial Advisory and Asset Management segments uses the following properties. We license and sublease to LFCM Holdings certain office space, including office space that is used by the separated businesses. This includes subleasing or licensing approximately 35,530 square feet in New York, New York located at 30 Rockefeller Plaza to LFCM Holdings. Additionally, our New York, London and other offices sublease 37,235, 55,676 and 16,765 square feet, respectively, to third parties. We remain fully liable for the subleased space to the extent LFCM Holdings, or the third parties, fail to perform their obligations under the subleases for any reason. In addition, LFCM Holdings entered into indemnity arrangements in relation to excess space and abandoned former premises in London.

Location	Square Footage	Comments
New York	380,354 square feet of leased space	Key office located at 30 Rockefeller Plaza, New York, New York 10020. (Includes 67,959 square feet subleased by us.)
Other North America	128,115 square feet of leased space	Includes offices in Atlanta, Chicago, Houston, Los Angeles, Minneapolis, Montreal, San Francisco, Boston and Toronto.
Paris	170,644 square feet of owned and leased space	Key office located at 121 Boulevard Haussmann, 75008 Paris.
London	86,695 square feet of leased space	Key office located at 50 Stratton Street, London W1J 8LL.
Other Europe		

	99,844 square feet of leased space	Includes offices in Amsterdam, Berlin, Bordeaux, Frankfurt, Hamburg, Lyon, Madrid, Milan, Rome, Zurich and Stockholm.
Asia, Australia and Other		
	70,039 square feet of leased space	Includes offices in Mumbai, Hong Kong, Seoul, Singapore, Sydney, Melbourne, Tokyo, Beijing and Dubai City.

We believe that we currently maintain sufficient space to meet our anticipated needs.

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Item 3. Legal Proceedings

The Company s businesses, as well as the financial services industry generally, are subject to extensive regulation throughout the world. The Company is involved in a number of judicial, regulatory and arbitration proceedings and inquiries concerning matters arising in connection with the conduct of our businesses. The Company reviews such matters on a case by case basis and establishes any required reserves in accordance with SFAS No. 5, *Accounting For Contingencies.* Management believes, based on currently available information, that the results of such matters, in the aggregate, will not have a material adverse effect on the Company s financial condition but might be material to the Company s operating results or cash flows for any particular period, depending upon the operating results for such period.

In 2004, we received a request for information from the NASD as part of an industry investigation relating to gifts and gratuities, which was focused primarily on the Company s former Capital Markets business, which business was transferred to LFCM Holdings as a part of the separation. In addition, the Company received requests for information from the NASD, SEC and the U.S. Attorney s Office for the District of Massachusetts seeking information concerning gifts and entertainment involving an unaffiliated mutual fund company, which are also focused on that same business. In the course of an internal review of these matters, there were resignations or discipline of certain individuals associated with Lazard s former Capital Markets business. These investigations are continuing and the Company cannot predict their potential outcomes.

Item 4. Submission of Matters to a Vote of Security Holders

None.

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Part II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded in The New York Stock Exchange under the symbol LAZ. There is no publicly traded market for our Class B common stock which is held by LAZ-MD Holdings. The following table sets forth, for the fiscal quarters indicated, the high and low sales prices per share of our Class A common stock, as reported in the consolidated transaction reporting system, and the quarterly dividends declared during 2007 and 2006.

Price Range of Our Common Stock

	Sales Price		Dividends per Share of Common Stock
	High	**Low**	
2007			
Fourth quarter	$ 52.89	$ 38.36	$ 0.09
Third quarter	$ 49.75	$ 34.72	$ 0.09
Second quarter	$ 56.25	$ 43.88	$ 0.09
First quarter	$ 56.90	$ 46.33	$ 0.09
2006			
Fourth quarter	$ 49.28	$ 38.15	$ 0.09
Third quarter	$ 42.05	$ 33.75	$ 0.09
Second quarter	$ 48.90	$ 35.22	$ 0.09
First quarter	$ 46.06	$ 31.00	$ 0.09

As of February 15, 2008, there were approximately 26 holders of record of our common stock. This does not include the number of shareholders that hold shares in street-name through banks or broker-dealers.

On February 15, 2008, the last reported sales price for our common stock on the New York Stock Exchange was $37.64 per share.

On January 29, 2008, the Board of Directors of Lazard Ltd declared a quarterly dividend of $0.10 per share on its Class A common stock, payable on February 29, 2008 to stockholders of record on February 8, 2008.

Share Repurchases in the Fourth Quarter of 2007

There were no purchases made by or on behalf of Lazard of its common stock in the fourth quarter of the year ended December 31, 2007.

During the first quarter of 2008, through February 26, 2008, Lazard Group purchased 1,568,500 shares of Lazard Ltd Class A common stock in the open market at an aggregate cost of approximately $58.7 million (at an average purchase price of approximately $37.44 per share). In addition, in February, 2008, Lazard Group entered into a purchase agreement with a member of LAZ-MD Holdings to purchase 500,000 shares of Lazard Ltd Class A common stock for approximately $18.9 million (at an average purchase price of approximately $37.88 per share), which will settle on May 12, 2008.

Equity Compensation Plan Information

See Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters Equity Compensation Plan Information.

Item 6. Selected Financial Data

The following table sets forth the selected consolidated financial data for the Company for all periods presented. The results of operations for certain businesses that the Company no longer owns are reported as discontinued operations.

The consolidated financial statements prior to May 10, 2005, the date of our equity public offering, do not reflect what our results of operations and financial position would have been had we been a stand-alone, public company for the periods presented. In addition, the results of operations for periods prior to May 10, 2005 are not comparable to results of operations for subsequent periods. Specifically, for periods prior to May 10, 2005, the results of operations do not give effect to the following matters:

Payment for services rendered by Lazard Group s managing directors, which, as a result of Lazard Group operating as a limited liability company, historically had been accounted for as distributions from members capital, or in some cases as minority interest, rather than as compensation and benefits expense. As a result, prior to May 10, 2005, Lazard Group s operating income included within the accompanying consolidated financial statements did not reflect payments for services rendered by its managing directors. For periods subsequent to the consummation of the equity public offering as described in Note 1 of the accompanying Notes to Consolidated Financial Statements, all payments for services rendered by our managing directors and distributions to holders of profit participation interests (profit participation members) in Lazard Group are included within the accompanying consolidated financial statements in compensation and benefits expense.

U.S. corporate federal income taxes, since Lazard Group had operated in the U.S. as a limited liability company that was treated as a partnership for U.S. federal income tax purposes. As a result, Lazard Group s income had not been subject to U.S. federal income taxes. Taxes related to income earned by partnerships represent obligations of the individual partners. Outside the U.S., Lazard Group historically had operated principally through subsidiary corporations and had been subject to local income taxes. Accordingly, prior to May 10, 2005, income taxes reflected within Lazard Group s results of operations included within the accompanying consolidated financial statements are attributable to taxes incurred in non-U.S. entities and to New York City Unincorporated Business Tax (UBT) attributable to Lazard Group s operations apportioned to New York City. For periods subsequent to the equity public offering, the consolidated financial statements of Lazard Ltd include U.S. corporate federal income taxes on its allocable share of the results of operations of Lazard Group, giving effect to the post equity public offering structure.

Minority interest in net income relating to LAZ-MD Holdings ownership interest of Lazard Group s common membership interests since May 10, 2005. Prior to May 10, 2005, Lazard Ltd had no ownership interest in Lazard Group and all net income was allocable to the then members of Lazard Group. Commencing May 10, 2005, minority interest in net income includes LAZ-MD Holdings ownership interest of Lazard Group s common membership interests.

The use of proceeds from the financing transactions.

The net incremental interest expense related to the financing transactions.

The consolidated statements of financial condition and income data as of and for each of the years in the five year period ended December 31, 2007 have been derived, as applicable, from Lazard Ltd s and Lazard Group s consolidated financial statements. The audited consolidated statements of financial condition as of December 31, 2007 and 2006 and consolidated statements of income for each of the years in the three year period ended December 31, 2007 are included elsewhere in this Form 10-K. The audited consolidated statements of financial condition as of December 31, 2005, 2004 and 2003 and consolidated statements of income for the years ended December 31, 2004 and 2003 are not included in this Form 10-K. Historical results are not necessarily indicative of results for any future period.

The selected consolidated financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations, and the Company s consolidated financial statements and related notes included elsewhere in this Form 10-K.

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Selected Consolidated Financial Data

	As Of Or For The Year Ended December 31,				
	2007	2006	2005	2004	2003
	(in thousands of dollars, except per share amounts)				
Consolidated Statements of Income Data					
Net Revenue:					
Financial Advisory (a)	$ 1,240,177	$ 973,337	$ 864,812	$ 655,200	$ 690,967
Asset Management (b)	724,751	553,212	466,188	417,166	350,348
Corporate (c)	(47,239)	(32,994)	(29,558)	22,464	11,627
Net Revenue (d)	1,917,689	1,493,555	1,301,442	1,094,830	1,052,942
Compensation and Benefits (e)	1,123,068	891,421	698,683	466,064	388,266
Other Operating Expenses	376,326	274,925	260,397	260,942	225,940
Total Operating Expenses	1,499,394	1,166,346	959,080	727,006	614,206
Operating Income from Continuing Operations	$ 418,295	$ 327,209	$ 342,362	$ 367,824	$ 438,736
Income from Continuing Operations	$ 155,042	$ 92,985	$ 161,062	$ 251,999	$ 307,218
Net Income (Net Income Allocable to Members of Lazard Group prior to May 10, 2005) (e)	$ 155,042	$ 92,985	$ 143,486	$ 246,974(f)	$ 250,383
Net Income Per Share of Class A Common Stock (g):					
Basic	$3.04	$2.42	$1.45		
Diluted	$2.79	$2.31	$1.45		
Dividends Paid Per Share of Class A Common Stock (g)	$0.36	$0.36	$0.142		
Consolidated Statements of Financial Condition Data					
Total Assets	$ 3,840,413	$ 3,208,665	$ 1,910,897	$ 3,499,224	$ 3,257,229
Total Debt (h)	$ 1,764,622	$ 1,308,945	$ 1,241,344	$ 301,546	$ 312,167
Mandatorily Redeemable Preferred Stock	$	$	$	$ 100,000	$ 100,000
Stockholders Equity (Deficiency) (2005-2007); Members Equity (2003-2004)	$ 70,339	$ (240,353)	$ (870,671)	$ 384,798	$ 535,725

***Notes (in thousands of dollars)*:**

(a) Financial Advisory net revenue consists of the following:

	For The Year Ended December 31,				
	2007	2006	2005	2004	2003
M&A	$ 969,409	$792,537	$674,543	$481,726	$419,967
Financial Restructuring	127,175	70,625	103,404	96,100	244,600
Other Financial Advisory	143,593	110,175	86,865	77,374	26,400
Financial Advisory Net Revenue	$1,240,177	$973,337	$864,812	$655,200	$690,967

(b) Asset Management net revenue consists of the following:

	For The Year Ended December 31,				
	2007	2006	2005	2004	2003
Management and Other Fees	$ 595,725	$450,323	$389,414	$357,229	$284,565
Incentive Fees	67,032	59,371	44,627	27,354	38,225
Other Income	61,994	43,518	32,147	32,583	27,558
Asset Management Net Revenue	$ 724,751	$553,212	$466,188	$417,166	$350,348

(c) Corporate includes interest income (net of interest expense), including, for periods subsequent to May 10, 2005, the net incremental interest expense related to the financing transactions, investment income from certain investments and net money market revenue earned by LFB.

(d) Net revenue is presented after reductions for dividends relating to the Company s mandatory redeemable preferred stock issued in March 2001. Preferred dividends are reflected in corporate net revenue and amounted to $8,000 for each of the years ended December 31, 2004 and 2003. The year ended December 31, 2005 includes a credit of $8,000, which represents accrued dividends on the Company s mandatory redeemable preferred stock which was redeemed and cancelled pursuant to the redemption of membership interests of historical partners.

(e) Excludes, as applicable, with respect to periods ended prior to May 10, 2005, (i) payments for services rendered by Lazard Group s managing directors, which, as a result of Lazard Group operating as a limited liability company, historically had been accounted for as distributions from members capital, or in some cases as minority interest, rather than as compensation and benefits expense, and (ii) U.S. corporate federal income taxes, since Lazard Group has operated in the U.S. as a limited liability company that was treated as a partnership for U.S. federal income tax purposes.

(f) Net income allocable to members for the year ended December 31, 2004 is shown after an extraordinary gain of $5,507 related to the January 2004 acquisition of the assets of Panmure Gordon.

(g) Data is applicable for the period subsequent to May 10, 2005, the date of the Company s equity public offering. Losses related to discontinued operations were incurred prior to May 10, 2005. Therefore such losses are borne entirely by the historical members of Lazard Group, and do not affect net income per share of Lazard Ltd.

(h) Total debt amounts relate to the Company s continuing operations and represents the aggregate amount reflected in the Company s consolidated statements of financial condition relating to senior debt, capital lease obligations and subordinated debt.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with Lazard Ltd s consolidated financial statements and the related notes included elsewhere in this Form 10-K. This discussion contains forward-looking statements that are subject to known and unknown risks and uncertainties. Actual results and the timing of events may differ significantly from those expressed or implied in such forward-looking statements due to a number of factors, including those set forth in the section entitled Risk Factors and elsewhere in this Form 10-K.

The separation and recapitalization transactions were completed as of May 10, 2005, at which time the separated businesses became part of LFCM Holdings LLC (LFCM Holdings). Except as otherwise expressly noted, this annual report on Form 10-K, including this Management s Discussion and Analysis of Financial Condition and Results of Operations (the MD&A) and the consolidated financial data of Lazard Group and Lazard Ltd, reflect the results of operations and financial position of Lazard Group and Lazard Ltd, and includes the separated businesses in discontinued operations.

Results of operations are reported as a historical partnership until the equity public offering on May 10, 2005 and do not include, among other things, payments for services rendered by managing directors as compensation expense and a provision for U.S. federal income taxes. Such payments and tax provisions are included in subsequent periods. Therefore, results for the period prior to the equity public offering on May 10, 2005 and subsequent thereto are not comparable.

Business Summary

The Company s principal sources of revenue are derived from activities in the following business segments:

Financial Advisory, which includes providing advice on mergers and acquisitions (M&A), restructurings, capital raising and other transactions, and

Asset Management which includes strategies for the management of equity and fixed income securities and alternative investment and private equity funds.

In addition, the Company records selected other activities in Corporate, including management of cash, certain investments, and the commercial banking activities of Lazard Group s Paris-based Lazard Frères Banque SA (LFB). LFB is a registered bank regulated by the Banque de France and its primary operations include asset and liability management for Lazard Group s Paris House through its money market desk and commercial banking operations, deposit taking and, to a lesser extent, financing activities and custodial oversight over assets of various clients. LFB also operates many support functions relating to our business in Paris. The Company also allocates outstanding indebtedness to Corporate.

Prior to May 10, 2005, the Company also had a business segment called Capital Markets and Other, which consisted of equity, fixed income and convertibles sales and trading, broking, research and underwriting services and fund management activities outside of France as well as other specified non-operating assets and liabilities. The Company transferred its Capital Markets and Other segment to LFCM Holdings on May 10, 2005 and it is no longer a segment of the Company. The operating results of the former segment are reflected as discontinued operations in the year ended December 31, 2005.

On August 13, 2007, Lazard Group acquired Goldsmith, Agio, Helms & Lynner, LLC (GAHL), a Minneapolis-based investment bank specializing in financial advisory services to mid-sized private companies. On July 31, 2007, Lazard Ltd acquired Carnegie, Wylie & Company (Holdings) PTY LTD (CWC), an Australia-based financial advisory firm and concurrently sold such investment to Lazard Group. See Note 7 of Notes to Consolidated Financial Statements for additional information relating to the acquisitions of GAHL and CWC.

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For the years ended December 31, 2007, 2006, and 2005 the Company s consolidated net revenue was derived from the following segments:

	Year Ended December 31		
	2007	2006	2005
Financial Advisory	64%	65%	66%
Asset Management	38	37	36
Corporate	(2)	(2)	(2)
Total	100%	100%	100%

Business Environment

Economic and market conditions, particularly global M&A activity, can significantly affect our financial performance. Lazard operates in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for Lazard s management to predict all risks and uncertainties, nor can Lazard assess the impact of all factors on its business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. See the section entitled Risk Factors in this Form 10-K. Net income and revenue in any period may not be indicative of full-year results or the results of any other period and may vary significantly from year to year and quarter to quarter.

Financial Advisory

Global M&A activity for the year ended December 31, 2007 increased versus the corresponding prior year for both global and trans-atlantic completed transactions and announced transactions, as evidenced by the following industry statistics regarding the volume of transactions:

	Year Ended December 31,		
	2007	2006	% Incr /(Decr)
		($ in billions)	
Completed M&A Transactions:			
Global	$ 3,766	$2,997	26%
Trans-Atlantic	366	234	56%
Announced M&A Transactions:			
Global	4,240	3,517	21%
Trans-Atlantic	403	267	51%

Source: Thomson Financial as of January 14, 2008

While overall M&A industry statistics regarding the volume of announced transactions remained strong in 2007, the industry outlook for 2008 is somewhat uncertain. We believe that we are well positioned, due to the varied experience of our teams, the investments we have made in our business, and the diversity of our products, even in the current environment.

Activity in financial restructuring in 2007 continued at low levels, with the amount of corporate debt defaults, according to Moody s Investors Service, Inc, at $5 billion, down 38% from the $8 billion recorded in 2006 and the lowest level since 1981. Despite the low level of corporate defaults experienced in 2007, results in our Financial Restructuring practice reflected not only global expertise in bankruptcy assignments, but also from advising companies on matters relating to debt and financing restructuring and other complex on and off-balance sheet assignments. Although default rates were at record low levels in 2007, Moody s is expecting increases in default rates in 2008 as a result of weaker macroeconomic fundamentals and a modest worsening in the ratings mix of Moody s speculative grade issuers.

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Asset Management

As shown in the table below, there were generally modest increases in global market indices at December 31, 2007 as compared to such indices at December 31, 2006, with the markets experiencing significant volatility in the second half of 2007, principally as a result of mixed corporate earnings and developments in the credit markets.

	Percentage Change December 31, 2007 vs. 2006
MSCI World Index	7 %
CAC 40	1 %
DAX	22 %
FTSE 100	4 %
TOPIX 100	(12)%
MSCI Emerging Market	36 %
Dow Jones Industrial Average	6 %
NASDAQ	10 %
S&P 500	4 %

Lazard s market appreciation changes in its assets under management (AUM) during 2007 generally correspond to the changes in global market indices.

Financial Statement Overview

Net Revenue

The majority of Lazard s Financial Advisory net revenue is earned from the successful completion of mergers, acquisitions, restructurings, capital raising and similar transactions. The main driver of Financial Advisory net revenue is overall M&A, the level of corporate debt defaults and the environment for capital raising activities, particularly in the industries and geographic markets in which Lazard focuses. In some client engagements, often those involving financially distressed companies, revenue is earned in the form of retainers and similar fees that are contractually agreed upon with each client for each assignment and are not necessarily linked to the completion of a transaction. In addition, Lazard also earns fees from providing strategic advice to clients, with such fees not being dependent on a specific transaction. Lazard s Financial Advisory segment also earns revenue from public and private securities offerings in the form of referral fees for referring to LFCM Holdings opportunities for underwriting and distribution of securities. The referral fees received from LFCM Holdings is generally half of the revenue recorded by LFCM Holdings in respect of such activities.

Lazard s Asset Management segment principally includes Lazard Asset Management LLC and its subsidiaries (collectively referred to as LAM), Lazard Freres Gestion SAS (LFG) and Fonds Partenaires Gestion (FPG). Asset Management net revenue is derived from fees for investment management and advisory services provided to institutional and private clients. The main driver of Asset Management net revenue is the level of AUM, which is influenced in large part by Lazard s investment performance and by Lazard s ability to successfully attract and retain assets, as well as the broader performance of the global equity markets and, to a lesser extent, fixed income markets. As a result, fluctuations in financial markets and client asset inflows and outflows have a direct effect on Asset Management net revenue and operating income. In addition, as Lazard s AUM include significant assets that are denominated in currencies other than U.S. dollars, changes in the value of the U.S. dollar relative to non-U.S. currencies will impact the value of Lazard s AUM. Fees vary with the type of assets managed, with higher fees earned on equity assets, alternative investments (such as hedge funds) and private equity products, and lower fees earned on fixed income and cash management products.

The Company also earns performance-based incentive fees on various investment products, including alternative investment funds such as hedge funds, private equity funds and traditional products. Incentive fees are calculated based on a specified percentage of a fund s net appreciation, in some cases in excess of established benchmarks. Incentive fees on private equity funds also may be earned in the form of a carried interest if profits from investments exceed a specified threshold. These incentive fees are paid at the end of the measurement period. Incentive fees on hedge funds generally are subject to loss carry-forward provisions in which losses incurred by the funds in any year are applied against certain future period net appreciation before any incentive fees can be earned.

The Company records incentive fees at the end of the relevant performance measurement period, when potential uncertainties regarding the ultimate realizable amounts have been determined. The performance fee measurement period is generally an annual period, unless an account terminates during the year. These incentive fees received at the end of the measurement period are not subject to reversal or payback.

Corporate net revenue consists primarily of net interest income, including amounts earned at LFB, and investment income earned on debt securities at LFB, LAM-managed equity funds and principal investments in equities and alternative investment funds managed by Lazard Alternative Investments Holdings LLC (LAI). Interest expense related to the financing transactions associated with the equity public offering is included in Corporate net revenue. Corporate net revenue can fluctuate due to fair value adjustments, changes in interest rates and in interest rate and credit spreads and changes in the levels of cash, investments and indebtedness. Although Corporate net revenue during the year ended December 31, 2007 represented (2)% of Lazard s net revenue, total assets in Corporate represented 64% of Lazard s consolidated total assets as of December 31, 2007, principally attributable to assets associated with LFB, and, to a lesser extent, investments in LAM-managed funds, other securities and cash.

Lazard expects to experience significant fluctuations in net revenue and operating income during the course of any given year. These fluctuations arise because a significant portion of Financial Advisory net revenue is earned upon the successful completion of a transaction, financial restructuring or capital raising activity, the timing of which is uncertain and is not subject to Lazard s control. Asset Management net revenue is also subject to periodic fluctuations. Asset Management fees are generally based on AUM measured as of the end of a quarter or month, and an increase or reduction in AUM at such dates, due to market price fluctuations, currency fluctuations, net client asset flows or otherwise, will result in a corresponding increase or decrease in management fees. In addition, incentive fees earned on AUM are generally not recorded until potential uncertainties regarding the ultimate realizable amounts have been determined. For most of our funds that determination is made at year-end, and therefore such incentive fees are recorded in the fourth quarter of Lazard s fiscal year.

Operating Expenses

The majority of Lazard s operating expenses relate to compensation and benefits for employees and managing directors. As a limited liability company, prior to the equity public offering on May 10, 2005 payments for services rendered by the majority of Lazard s managing directors were accounted for as distributions of members capital. In addition, commencing January 1, 2003 and through May 10, 2005, payments for services rendered by managing directors and employee members of LAM were accounted for as minority interest in net income. See Minority Interest. For periods subsequent to May 10, 2005, the accompanying consolidated financial statements include all payments for services rendered by our managing directors, including the managing directors and employee members of LAM and distributions to profit participation members, in compensation and benefits expense. As a result, Lazard s compensation and benefits expense and operating income for the years ended December 31, 2007 and 2006 includes all such payments, while compensation and benefits expense and operating income for the year ended December 31, 2005 did not include those payments for services rendered by Lazard s managing directors prior to the equity public offering on May 10, 2005. If the portion of distributions to managing directors and LAM members was accounted for as compensation, total compensation and benefits expense for the year ended December 31, 2005 would have been approximately $75 million higher.

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Our policy is that our compensation and benefits expense will not exceed 57.5% of operating revenue each year, including compensation and benefits payable to our managing directors and amortization of restricted stock unit awards (RSUs) under our 2005 Equity Incentive Plan (see Note 14 of Notes to Consolidated Financial Statements). In 2007, 2006 and 2005, our compensation expense-to-operating revenue ratio was 55.7%, 56.7% and 57.0%, respectively (with the percentage for 2005 giving effect to the pre-equity public offering portion of distributions to members which represent payment for services rendered and our minority interest in net income related to LAM being accounted for as compensation and benefits expense). We achieved these ratios while continuing to maintain compensation packages for our managing directors that we believe are competitive in the market-place. While we have implemented such steps that we believe will maintain our ongoing compensation expense-to-operating revenue ratio to the target level of 57.5%, there can be no guarantee that this will continue to be achieved or that our policy will not change in the future. Increased competition for senior professionals, changes in the financial markets generally or other factors could prevent us from sustaining this objective.

The balance of Lazard s operating expenses are referred to below as non-compensation expense, which includes costs for occupancy and equipment, marketing and business development, technology and information services, professional services, fund administration and outsourced services, provision pursuant to a tax receivable agreement with LFCM Holdings and other expenses. Effective in 2007, Lazard implemented a revised categorization of non-compensation expenses to better reflect the manner in which we manage and review expenses. As such, certain expense categories were (i) eliminated and reclassified to other categories, (ii) added to enhance clarity to those expenses which may, for example, fluctuate consistent with AUM, or (iii) renamed and combined to more effectively capture related expenses previously included in other categories. Operating expenses also include the costs Lazard incurred as a result of the equity public offering after May 10, 2005. Lazard has incurred additional expenses for, among other things, directors fees, SEC reporting and compliance, insurance, investor relations, legal, accounting and other costs associated with being a public company.

Provision for Income Taxes

Lazard Group primarily operates in the U.S. as a limited liability company that is treated as a partnership for U.S. federal income tax purposes. As a result, Lazard Group s income pertaining to the limited liability company is not subject to U.S. federal income taxes because taxes associated with such income represent obligations of the individual partners. Outside the U.S., Lazard Group operates principally through corporations and is subject to local income taxes. Income taxes shown on Lazard s consolidated statements of income for periods prior to the equity public offering on May 10, 2005 are attributable to taxes incurred in non-U.S. entities and to New York City Unincorporated Business Tax (UBT) attributable to Lazard s operations apportioned to New York City.

Following the equity public offering, Lazard Group is continuing to operate in the U.S. as a limited liability company treated as a partnership for U.S. federal income tax purposes and remains subject to local income taxes outside the U.S. and to UBT. In addition, Lazard Ltd s corporate subsidiaries are subject to additional income taxes, which taxes are reflected in its consolidated statements of income.

Minority Interest

Minority interest consists of a number of components. As described below, amounts recorded as minority interest for periods prior to the equity public offering on May 10, 2005 are not comparable to amounts recorded as minority interest for periods commencing May 10, 2005.

Commencing May 10, 2005, the Company records a charge to minority interest in net income relating to LAZ-MD Holdings ownership interest in Lazard Group, which approximated 51.7%, 52.1% and 62.4% at December 31, 2007, 2006 and 2005, respectively, with such expense amounting to $177.5 million $160.3 million and $103.6 million for the years ended December 31, 2007 and 2006 and for the period May 10, 2005 through December 31, 2005, respectively.

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Also included in minority interest in our consolidated financial statements are minority interests in various LAM-related general partnerships held directly by certain of our LAM managing directors.

In 2003, certain members of Lazard Group who provided services to LAM contributed capital to LAM and ceased being members of Lazard Group. In connection with this contribution, LAM managing directors and other key LAM employees were granted equity units in LAM. These capital interests were included in minority interest on Lazard Group s consolidated statements of financial condition and through May 9, 2005, payments for services rendered by these individuals were accounted for as minority interest in net income in Lazard Group s consolidated statements of income. As a result of the equity public offering, and as described in Note 1 of Notes to Consolidated Financial Statements, commencing May 10, 2005 the Company no longer recognizes payments for services rendered by the managing directors and employee members of LAM as charges to minority interest, with such charges now included in compensation and benefits expense.

The LAM equity units entitle holders to payments in connection with selected fundamental transactions affecting Lazard Group or LAM, including a dissolution or sale of all, or substantially all, of the assets of Lazard Group or LAM, a merger of, or sale of, all of the interests in LAM whereby Lazard Group ceases to own a majority of LAM or have the right to appoint a majority of the board of directors of LAM, or a non-ordinary course sale of assets by LAM that exceeds $50 million in value. As a general matter, in connection with a fundamental transaction that triggers the LAM equity units, following the completion of such transactions the holders of the LAM equity units would be entitled in the aggregate, as of both December 31, 2007 and 2006, to approximately 23% of the net proceeds or imputed valuation of LAM in such transaction after deductions for payment of creditors of LAM and the return of LAM capital. As of December 31, 2007, and 2006 LAM s capital for these purposes totaled approximately $53 million and $60 million, respectively. During 2007, approximately $7 million of such capital was repaid to the managing directors and employee members of LAM, with the remainder now entirely owned by Lazard Group. These LAM equity units are not entitled to share in the operating results of LAM. A separate class of interests in LAM, which we refer to as LAM profit units, is entitled to the ordinary profit and losses of LAM, all of which are owned by Lazard Group. Accordingly, in the absence of a fundamental transaction that triggers the LAM equity units, all of LAM s net income is allocable to Lazard Group. We have no current intention to cause or otherwise trigger a fundamental transaction that would give rise to payment obligations to the holders of interests in LAM.

The board of directors of LAM, a majority of which is appointed by Lazard Group, may, in its discretion, grant LAM equity interests that include profit rights to managing directors of, and other persons providing services to, LAM, as a portion of their ongoing compensation. If granted, these equity interests would be subject to specified vesting conditions. No such LAM equity interests have been granted as of December 31, 2007 nor is there any present intention to do so.

Commencing January, 2003, Lazard Group recorded minority interest to reflect its strategic alliance with Banca Intesa S.p.A (Intesa), under which Intesa was a 40% partner in Lazard Group s business interests in Italy. As described in Note 8 of Notes to Consolidated Financial Statements, on May 15, 2006 Lazard Group, Lazard & Co. S.r.l. (Lazard Italy), an indirect subsidiary of Lazard Group, and Intesa completed the termination of the strategic alliance. As a result of the termination, Lazard Group now owns 100% of Lazard Italy, and therefore no longer records minority interest with respect to this alliance.

See Note 6 of Notes to Consolidated Financial Statements for information regarding the components of the Company s minority interest.

Discontinued Operations

As described above, in connection with the separation Lazard Group transferred the Capital Markets and Other segment to LFCM Holdings as of May 10, 2005. Capital Markets and Other net revenue largely consisted of primary revenue earned from underwriting fees from securities offerings and secondary revenue earned in the

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form of commissions and trading profits from principal transactions in Lazard Group s equity, fixed income and convertibles businesses and underwriting and other fee revenue from corporate broking in the U.K. Lazard Group also earned fund management fees and, if applicable, carried interest incentive fees related to alternative investments and private equity funds managed as part of this former segment. Such carried interest incentive fees were earned if profits from alternative investments and private equity investments exceeded a specified threshold. In addition, this former segment generated investment income and net interest income principally from investments, cash balances and securities financing transactions.

Consolidated Results of Operations

Lazard s consolidated financial statements are presented in U.S. dollars. Many of our non-U.S. subsidiaries have a functional currency (*i.e.*, the currency in which operational activities are primarily conducted) that is other than the U.S. dollar, generally the currency of the country in which the subsidiaries are domiciled. Such subsidiaries assets and liabilities are translated into U.S. dollars using exchange rates as of the respective balance sheet date while revenue and expenses are translated at average exchange rates during the respective periods based on the daily closing exchange rates. Adjustments that result from translating amounts from a subsidiary s functional currency are reported as a component of members or stockholders equity. Foreign currency remeasurement gains and losses on transactions in non-functional currencies are included in the consolidated statements of income. As described above, operating results for the period prior to the equity public offering on May 10, 2005 are not comparable to operating results subsequent to that date.

A discussion of the Company s consolidated results of operations for the years ended December 31, 2007, 2006 and 2005 is set forth below, followed by a more detailed discussion of business segment results.

	Year Ended December 31,		
	2007	2006	2005
		($ in thousands)	
Revenue			
Investment banking and other advisory fees	$ 1,196,648	$ 946,107	$ 846,390
Money management fees	663,316	510,558	435,015
Interest income	89,942	45,074	34,618
Other	104,893	96,070	63,784
Total revenue	2,054,799	1,597,809	1,379,807
Interest expense	137,110	104,254	78,365
Net revenue	1,917,689	1,493,555	1,301,442
Operating Expenses			
Compensation and benefits	1,123,068	891,421	698,683(*)
Non-compensation expense(**)	376,326	274,925	260,397
Total operating expenses	1,499,394	1,166,346	959,080
Operating Income from Continuing Operations	418,295	327,209	342,362(*)
Provision for income taxes	80,616	68,812	58,985(*)
Income from Continuing Operations Before Minority Interest in Net Income	337,679	258,397	283,377(*)
Minority interest in net income	182,637	165,412	122,315

Income from Continuing Operations	155,042	92,985	161,062(*)
Loss from Discontinued Operations (net of income tax provision of $3,330)			(17,576)(*)
Net Income (Net Income Allocable to Members of Lazard Group for the Period Prior to May 10, 2005)	$ 155,042	$ 92,985	$ 143,486(*)

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(*) Excludes, as applicable, with respect to the period prior to May 10, 2005, (a) payments for services rendered by Lazard Group s managing directors, which, as a result of Lazard Group operating as a limited liability company, historically had been accounted for as distributions from members capital, or in some cases as minority interest, rather than as compensation and benefits expense, and (b) U.S. corporate federal income taxes, since Lazard Group has operated in the U.S. as a limited liability company that was treated as a partnership for U.S. federal income tax purposes.

(**) Including, in 2007, amortization of intangible assets relating to acquisitions of $21,523.

The table below describes the components of operating revenue, a non-GAAP measure used by the Company to manage total compensation and benefits expense to managing directors and employees:

	Year Ended December 31,		
	2007	2006	2005
	($ in thousands)		
Operating revenue			
Total revenue	$2,054,799	$1,597,809	$1,379,807
Deduct:			
Interest expense related to LFB(a)	(34,827)	(21,628)	(19,388)
Revenue related to consolidation of LAM general partnerships(b)	(5,135)	(5,114)	(2,784)
Operating revenue	$2,014,837	$1,571,067	$1,357,635

(a) The interest expense incurred by LFB is deducted from total revenue because LFB is a commercial bank and we consider its interest expense to be a cost directly related to the conduct of its business.

(b) LAM general partnership revenue is deducted because we do not deem such revenue as operating in nature as it is directly offset by a charge to minority interest in net income for the same amount.

Certain key ratios, statistics and headcount information for the years ended December 31, 2007, 2006 and 2005 are set forth below:

	Year Ended December 31,		
	2007	2006	2005
As a % of Net Revenue, By Revenue Category:			
Investment banking and other advisory fees	62%	63%	65%
Money management fees	35	34	33
Interest income	5	3	3
Other	5	7	5
Interest expense	(7)	(7)	(6)
Net Revenue	100%	100%	100%
As a % of Net Revenue:			
Operating Income	22%	22%	26%

	As of December 31,		
	2007	2006	2005
Headcount:			
Managing Directors:			
Financial Advisory	138	128	123
Asset Management	48	43	38
Corporate	8	8	8
Limited Managing Directors	6	5	5
Other Employees:			
Business segment professionals	997	811	777
All other professionals and support staff	1,261	1,205	1,240
Total	2,458	2,200	2,191

Operating Results

Year Ended December 31, 2007 versus December 31, 2006

Net income for the year ended December 31, 2007 increased $62 million, or 67%, as compared to 2006. Net income per share of Class A common stock, diluted was $2.79, as compared to $2.31 in 2006. As described above, the Company acquired GAHL and CWC during the third quarter of 2007. Our results for the year ended December 31, 2007 include the results of such acquired businesses from their respective acquisition dates, which, in the aggregate, did not materially impact either net income or net income per share of Class A common stock.

Net revenue increased $424 million, or 28%, for the year ended December 31, 2007, compared to 2006. Fees from investment banking and other advisory activities grew $251 million, or 26%, versus 2006, reflecting stronger M&A performance resulting from both increased size and volume of completed M&A transactions and net revenue attributable to the acquisitions of GAHL and CWC. Money management fees, including incentive fees, increased $153 million, or 30%, as compared to the prior year principally as the result of a $33 billion, or 34%, increase in average AUM for the year ended December 31, 2007 versus 2006. Interest income increased $45 million, or 100%, as a result of higher interest-earning average cash balances in 2007, which were largely the result of net proceeds from the Company s December, 2006 primary offering of Class A common stock and a June, 2007 issuance of $600 million principal amount of 6.85% senior notes. Other revenue increased $9 million, or 9%, in 2007 versus 2006. During 2007, other revenue included an aggregate increase of $23 million attributable to higher referral fees earned from activities with LFCM Holdings, foreign currency gains and commissions, partially offset by a decline of $10 million in investment income as a result of the widening of credit spreads due to sub-prime concerns in the debt markets in 2007 and volatility in the equity markets during the fourth quarter of 2007, resulting in mark-downs in LFB s portfolio of corporate debt securities and other temporary Corporate investments in equity securities. In addition, the Company recorded a $9 million gain in connection with its share in the net proceeds related to the sale of a portion of LFCM Holdings ownership interest in PG&C in 2007 (see Note 18 of Notes to Consolidated Financial Statements), while 2006 included a $14 million gain recognized as a result of the termination of the strategic alliance with Intesa. Interest expense for the year ended December 31, 2007 increased $33 million, or 32%, as a result of the incremental interest expense of $22 million related to the June 2007 issuance of $600 million principal amount of 6.85% senior notes, with the remainder primarily resulting from both higher average customer deposits in LFB and higher interest rates with respect thereto.

Compensation and benefits expense increased $232 million, or 26%, for the year ended December 31, 2007, and represented 55.7% of operating revenue, compared with 56.7% of operating revenue in 2006, reflecting an increase in incentive compensation associated with the growth in operating revenues, amortization of an increased amount of RSUs and additional compensation associated with the strategic headcount growth of managing directors and business segment professionals.

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Non-compensation expense in 2007 increased $101 million, or 37%, with such increase including amortization expense of $22 million related to intangible assets associated with the 2007 acquisitions of GAHL and CWC, as well an increase of $11 million for the provision pursuant to the tax receivable agreement with LFCM Holdings. Other factors contributing to the expense increase in 2007 was a charge of $6 million related to abandoned lease facilities as well as current period increases in expenses related to increased business activity, including fund administration and services associated with the growth in AUM, electronic data services, business investments including new office locations, recruitment, travel and other market development and one-time VAT and other cost recoveries recorded in 2006. Excluding the impact of the amortization of intangible assets related to acquisitions in 2007 and the provision pursuant to the tax receivable agreement with LFCM Holdings in both years, the ratio of non-compensation expense to operating revenue was 16.8% and 17.1% for 2007 and 2006, respectively.

Operating income for the year ended December 31, 2007 increased $91 million, or 28%, versus 2006. Operating income as a percentage of net revenue was 22% for both years. Operating income in 2007 benefited by approximately $20 million from the strengthening of foreign currencies against the U.S. Dollar.

The provision for income taxes for the year ended December 31, 2007 increased $12 million, versus the prior year due principally to increased foreign income taxes at Lazard Group attributable to higher levels of income in 2007, partially offset by lower income taxes incurred by Lazard Ltd resulting from a decrease in Lazard Ltd s effective tax rate on its ownership interest in Lazard Group s operating income in 2007. The Company s effective tax rate was 19.3% for the year ended December 31, 2007 as compared to 21.0% for the corresponding period in 2006.

Minority interest in net income for the year ended December 31, 2007 increased $17 million, or 10%, versus 2006 which principally reflected the higher level of Lazard Group net income in 2007, partially offset by the reduction in LAZ-MD Holdings ownership interest of Lazard Group, which declined to an average of 51% in 2007 from an average of 60% in 2006.

Year Ended December 31, 2006 versus December 31, 2005

Net income for the year ended December 31, 2006 decreased by $51 million, or 35%, as compared to 2005. Net income per share of Class A common stock, diluted was $2.31, versus $1.45 in 2005 for the period subsequent to May 10, 2005, the date of our equity public offering. Historical results for the period prior to the equity public offering on May 10, 2005 and subsequent thereto are not comparable.

Net revenue for the year ended December 31, 2006 increased $192 million, or 15%, versus 2005. During 2006, fees from investment banking and other advisory activities increased $100 million, or 12%, versus 2005, as a result of stronger M&A performance. Money management fees, including incentive fees grew $76 million, or 17%, versus 2005 primarily as a result of an $11.3 billion, or 13%, increase in average AUM. Interest income increased $10 million, or 30%, reflecting higher average cash balances throughout 2006. Other revenue increased $32 million, or 51%, versus 2005 principally due to the impact of a gain of $14 million recognized in 2006 on the termination of the Intesa strategic alliance (see Note 8 of Notes to Consolidated Financial Statements), increased dividends and underwriting fees. Interest expense increased $26 million and was largely attributable to the incremental interest expense on financings, principally the issuance of debt and equity security units on May 10, 2005 in connection with the equity public offering and recapitalization, with such debt and equity security units outstanding for the full year in 2006 as compared to only part of 2005.

Compensation and benefits expense for the year ended December 31, 2006 increased $193 million, or 28%, versus 2005 reflecting a higher level of incentive compensation consistent with the increase in operating revenues and the inclusion in compensation and benefits expense, for the period subsequent to the equity public offering on May 10, 2005, of amortization of RSUs and of all payments for services rendered by our managing directors and payments for services rendered by managing directors and employee members of LAM, the latter of which previously had been accounted for as minority interest in net income. If the portion of distributions to managing directors and LAM members had been accounted for as compensation, total compensation and benefits expense for the year ended December 31, 2005 would have been approximately $75 million higher.

Non-compensation expense for the year ended December 31, 2006 increased $15 million, or 6%, versus 2005, with such increase including a $3 million increase for the provision pursuant to the tax receivable agreement with LFCM Holdings. Other contributing factors to the expense increase were higher professional fees as a result of consulting and audit fees related to compliance with the Sarbanes-Oxley Act of 2002, legal fees, and fund administration and outsourced services related to the growth in AUM and utilization of certain outsourcing providers, partially offset by the recovery of VAT costs expensed in prior years, and declines in unrecoverable deal-related expenses and insurance expense. Excluding the impact of the provision pursuant to the tax receivable agreement with LFCM Holdings in both years, the ratio of non-compensation expense to operating revenue was 17.1% and 19.0% for 2006 and 2005, respectively.

Operating income, including the one-time gain on termination of the Intesa strategic alliance (which, after transaction and other costs, served to increase operating income by approximately $5 million) declined $15 million, or 4% for the year ended December 31, 2006 versus 2005. Operating income as a percentage of net revenue was 22% for 2006 versus 26% for 2005, with the decline in such ratio primarily resulting from the increase in compensation and benefits expense, partially offset by revenue growth. As stated above, historical results for periods prior to the equity public offering on May 10, 2005 and subsequent thereto are not comparable.

For the year ended December 31, 2006, the provision for income taxes increased $10 million, or 17%, versus 2005 as entity level income taxes incurred by Lazard Ltd were incurred for the entire year in 2006 as compared to only the partial period May 10 through December 31, 2005. The Company s effective income tax rate was 21.0% for the year ended December 31, 2006, as compared to 17.2% for 2005.

Minority interest increased approximately $43 million for the year ended December 31, 2006 versus 2005, reflecting a full year of LAZ-MD Holdings ownership interest of Lazard Group in 2006 which approximated 62.3% for the period January 1, 2006 through December 6, 2006, the date of the Company s primary and secondary offerings, (see Note 2 of Notes to Consolidated Financial Statements), and 52.1% for the remainder of 2006 versus a partial year s ownership interest of approximately 62.4% for the period commencing May 10, 2005 through December 31, 2005. This increase was partially offset by the lack of minority interest in net income related to the Intesa strategic alliance in 2006, as well as the compensation for LAM members being recorded in compensation and benefits expense, while in periods prior to the equity public offering on May 10, 2005, such amounts were recorded in minority interest in net income.

Business Segments

The following is a discussion of net revenue and operating income for the Company s business segments - Financial Advisory, Asset Management and the Corporate segment. Each segment s operating expenses include (i) compensation and benefits expenses that are incurred directly in support of the segment and (ii) other operating expenses, which include directly incurred expenses for occupancy and equipment, marketing and business development, technology and information services, professional services, fund administration and outsourcing, and indirect support costs (including compensation and benefits expense and other operating expenses related thereto) for administrative services. Such administrative services include, but are not limited to, accounting, tax, legal, facilities management and senior management activities. Such support costs are allocated to the relevant segments based on various statistical drivers such as, among other items, headcount, square footage and transactional volume.

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Financial Advisory

The following table summarizes the operating results of the Financial Advisory segment:

	Year Ended December 31, 2007	2006	2005(b)
	($ in thousands)		
M&A	$ 969,409	$ 792,537	$ 674,543
Financial Restructuring	127,175	70,625	103,404
Corporate Finance and Other	143,593	110,175	86,865
Net Revenue	1,240,177	973,337	864,812
Direct Compensation and Benefits	661,475	529,624	394,368
Other Operating Expenses (a)	259,230	192,527	194,656
Total Operating Expenses	920,705	722,151	589,024
Operating Income	$ 319,472	$ 251,186	$ 275,788
Operating Income, Excluding Amortization of Intangible Assets Related To Acquisitions (c)	$ 340,995	$ 251,186	$ 275,788
Operating Income as a Percentage of Net Revenue	26%	26%	32%
Operating Income as a Percentage of Net Revenue, Excluding Amortization of Intangible Assets Related To Acquisitions (c)	27%	26%	32%

	As of December 31, 2007	2006	2005
Headcount (d):			
Managing Directors	138	128	123
Limited Managing Directors	3	2	2
Other Employees:			
Business segment professionals	654	510	490
All other professionals and support staff	264	217	240
Total	1,059	857	855

(a) Includes indirect support costs (including compensation and benefits expense and other operating expenses related thereto), and in 2007, $21,523 of amortization of intangible assets related to the acquisitions of GAHL and CWC.
(b) Historical results for the period prior to the equity public offering on May 10, 2005 and subsequent thereto are not comparable.
(c) Excludes, in 2007, $21,523 of amortization of intangible assets related to the acquisitions of GAHL and CWC.
(d) Includes, in 2007, an aggregate of five managing directors, 96 business segment professionals and 39 other professionals and support staff applicable to GAHL and CWC. In addition, the periods exclude headcount related to indirect support functions, with such headcount being included in Corporate.

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Net revenue trends in Financial Advisory for M&A and Financial Restructuring generally are correlated to the volume of completed industry-wide mergers and acquisitions activity and restructurings occurring subsequent to corporate debt defaults, respectively. However, deviations from this relationship can occur in any given year for a number of reasons. For instance, material variances in the level of mergers and acquisitions activity in a particular geography where Lazard has significant market share or the number of its advisory engagements with respect to larger-sized transactions can cause its results to diverge from industry-wide activity. Certain Lazard client statistics and global industry statistics are set forth below:

	Year Ended December 31,		
	2007	**2006**	**2005**
Lazard Statistics:			
Number of Clients:			
Total	622	510	484
With Fees Greater than $1 million	230	202	184
Percentage of Total Financial Advisory Revenue from Top 10 Clients (a)	19%	21%	20%
Number of M&A Transactions Completed Greater than $1 billion (b)	52	51	40

(a) There were no individual clients that constituted more than 10% of our Financial Advisory segment net revenue in the years ended December 31, 2007, 2006 or 2005.

(b) Source: Thomson Financial as of January 14, 2008

The geographical distribution of Financial Advisory net revenue is set forth below in percentage terms. The offices that generate Financial Advisory net revenue are located in the United States, Europe (principally in the U.K., France, Italy, Spain and Germany) and the rest of the world (principally in Australia, which, for the 2007 period, includes the impact of the acquisition of CWC).

	Year Ended December 31,		
	2007	**2006**	**2005**
United States	49%	54%	48%
Europe	44	45	50
Rest of World	7	1	2
Total	100%	100%	100%

The Company s managing directors and many of its professionals have significant experience, and many of them are able to use this experience to advise on both mergers and acquisitions and financial restructuring transactions, depending on clients needs. This flexibility allows Lazard to better match its professional staff with the counter-cyclical business cycles of mergers and acquisitions and financial restructurings. While Lazard measures revenue by practice area, Lazard does not separately measure the separate costs or profitability of mergers and acquisitions services as compared to financial restructuring services. Accordingly, Lazard measures performance in its Financial Advisory segment based on overall segment net revenue and operating income margins.

Financial Advisory Results of Operations

Year Ended December 31, 2007 versus December 31, 2006

In 2007, Financial Advisory net revenue increased $267 million, or 27%, as compared to 2006. During 2007 M&A revenue increased $177 million, or 22%, Financial Restructuring revenue increased $57 million, or 80%, and Corporate Finance and Other net revenue increased $33 million, or 30%.

The increase in M&A revenue in 2007 was due primarily to organic growth, reflecting an increase in both the number of clients and average fee per transaction for those transactions with fees in excess of $1 million and,

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to a lesser extent, the revenue attributable to GAHL and CWC, which were both acquired in the third quarter of 2007, and improved productivity. Clients, which in the aggregate, represented 25% of our M&A revenue for the year included Alinta, American Standard (Trane), Barclays, Danone, Dollar General, First Choice Holidays, Florida Rock Industries, KeySpan, Mellon Financial, Millicom International Cellular, Louis-Dreyfus Groupe, TXU and Viasys Healthcare.

Financial Restructuring revenue is derived from various activities including bankruptcy assignments, global debt and financing restructurings and advice on complex on and off-balance sheet assignments, such as retiree health care obligations. The increase in revenue was the result of several large assignments during 2007 including, Eurotunnel, Calpine s Unsecured Creditors Committee, New Century Financial Corporation, Tower Automotive and the UAW in connection with its contract discussions with GM, Ford and Chrysler over retiree health care obligations and in connection with Delphi s bankruptcy.

Corporate Finance and Other net revenue increased versus 2006 reflecting increased Private Placement revenues as a result of higher revenue per assignment in 2007, growth in referral fees from LFCM Holdings related to our Equity Capital Markets Advisory activities and, to a lesser extent, growth in Private Fund Advisory fees.

Operating expenses for the year ended December 31, 2007 increased $199 million, or 27%, versus 2006. Compensation and benefits expense increased $132 million, or 25%, versus 2006, due to an increase in incentive compensation related to a higher level of operating revenue, amortization of an increased amount of RSUs and additional compensation associated with strategic headcount growth, principally from the GAHL and CWC acquisitions, as well as hiring of senior bankers during 2007. Other operating expenses increased $67 million, or 35%, primarily due to amortization expense of $22 million related to intangible assets associated with the GAHL and CWC acquisitions, higher business development-related expenses in 2007 and the impact of one-time cost recoveries in 2006.

Financial Advisory operating income for 2007 increased $68 million, or 27%, versus 2006. Operating income represented 26% of segment net revenues for both years. Excluding the impact of the amortization of intangible assets related to acquisitions of $22 million, operating income represented 27% of segment net revenue in 2007.

Year Ended December 31, 2006 versus December 31, 2005

In 2006, Financial Advisory net revenue increased $108 million, or 13%, versus 2005. M&A revenue grew $118 million, or 17%, Corporate Finance and Other net revenue increased $23 million, or 27%, and Financial Restructuring revenue declined by $33 million, or 32%, versus 2005.

The increase in M&A revenue in 2006 was primarily due to an overall stronger environment for M&A transactions and an increase in the number of clients or special committee assignments for which we provided advice as well as improved productivity. The increase in Corporate Finance and Other net revenue largely reflected higher Private Fund Advisory fees. Financial Restructuring revenue decreased in line with the lower level of debt defaults experienced in 2006.

Operating expenses were up $133 million, or 23%, versus 2005 as compensation and benefits expense increased $135 million, or 34%, which was partially due to the inclusion, for the period subsequent to the equity public offering, of amortization of RSUs and of all payments for services rendered by our managing directors in compensation and benefits expense. In addition, incentive compensation awards increased in

2006, consistent with the growth in operating revenues. Other operating expenses declined $2 million in the aggregate, or 1%, versus 2005.

Financial Advisory operating income declined $25 million, or 9%, in 2006 versus 2005, with operating income representing 26% and 32% of segment net revenue for 2006 and 2005, respectively. The decline in the

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operating income ratio reflected the increase in recorded compensation expense in 2006, partially offset by the leverage resulting from higher revenues. Historical results for periods prior to the equity public offering on May 10, 2005 and subsequent thereto are not comparable.

Asset Management

The following table shows the composition of AUM for the Asset Management segment:

	As of December 31,		
	2007	2006	2005
	($ in millions)		
AUM:			
International Equities	$ 50,535	$ 52,033	$ 42,104
Global Equities	47,814	26,453	15,872
U.S. Equities	20,927	13,708	12,920
Total Equities	119,276	92,194	70,896
European and International Fixed Income	10,255	8,418	6,604
Global Fixed Income	2,161	1,095	2,135
U.S. Fixed Income	1,817	2,310	2,374
Total Fixed Income	14,233	11,823	11,113
Alternative Investments	3,577	3,457	3,394
Private Equity(a)	1,401	883	826
Cash Management	2,926	2,080	2,005
Total AUM	$ 141,413	$ 110,437	$ 88,234

(a) Includes $1.0 billion, $0.6 billion, and $0.4 billion as of December 31, 2007, 2006 and 2005, respectively, held by an investment company for which Lazard may earn carried interests.

Average AUM for the years ended December 31, 2007, 2006 and 2005 is set forth below. Average AUM is based on an average of quarterly ending balances for the respective periods.

	Year Ended December 31,		
	2007	2006	2005
	($ in millions)		
Average AUM	$ 130,827	$ 97,408	$ 86,106

The following is a summary of changes in AUM for the years ended December 31, 2007, 2006 and 2005.

	Year Ended December 31,		
	2007	2006	2005
		($ in millions)	
AUM Beginning of Period	$ 110,437	$ 88,234	$ 86,435
Net Flows	16,745	2,756	(4,198)
Market Appreciation	12,641	18,192	7,355
Foreign Currency Adjustments	1,590	1,255	(1,358)
AUM End of Period	$ 141,413	$ 110,437	$ 88,234

Total AUM at December 31, 2007 increased $31.0 billion, or 28%, over that at December 31, 2006, with average AUM increasing 34% versus 2006 average AUM. International, Global and U.S. equities represented 36%, 34% and 15% of total AUM at December 31, 2007, respectively, versus 47%, 24% and 12% of total AUM

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at December 31, 2006, respectively. The shift from International Equity products was largely the result of net inflows and market appreciation in Global Equity products and net inflows in U.S. Equity products. During the year ended December 31, 2007, of the total $31.0 billion increase in AUM, 54% was related to net inflows, 41% from market appreciation, and 5% from the positive impact of changes in foreign currency exchange rates.

Total AUM as of December 31, 2006 increased $22.2 billion, or 25%, over that at December 31, 2005, with average AUM increasing 13%, versus the 2005 average. International, Global and U.S. equities represented 47%, 24% and 12% of total AUM at December 31, 2006, respectively, versus 48%, 18% and 15% of total AUM at December 31, 2005, respectively. The shift toward Global Equity products in 2006 was the result of net inflows and market appreciation. During the year ended December 31, 2006, of the total $22.2 billion increase in AUM, 12% was related to net inflows, 82% from market appreciation and 6% from the positive impact of changes in foreign currency exchange rates.

The following table summarizes the operating results of the Asset Management segment:

	Year Ended December 31,		
	2007	2006	2005(b)
		($ in thousands)	
Management Fees	$ 595,725	$ 450,323	$ 389,414
Incentive Fees	67,032	59,371	44,627
Other Income	61,994	43,518	32,147
Net Revenue	724,751	553,212	466,188
Direct Compensation and Benefits	338,807	250,881	199,600
Other Operating Expenses(a)	200,993	167,141	150,201
Total Operating Expenses	539,800	418,022	349,801
Operating Income	$ 184,951	$ 135,190	$ 116,387
Operating Income as a Percentage of Net Revenue	26%	24%	25%

	As of December 31,		
	2007	2006	2005
Headcount(c):			
Managing Directors	48	43	38
Limited Managing Directors	3	2	2
Other Employees:			
Business segment professionals	334	293	276
All other professionals and support staff functions	372	348	327
Total	757	686	643

(a) Includes indirect support costs (including compensation and benefits expense and other operating expenses related thereto).
(b) Historical results for the period prior to the equity public offering on May 10, 2005 and subsequent thereto are not comparable.
(c) Excludes headcount related to indirect support functions. Such headcount is included in the Corporate headcount.

There were no individual clients that constituted more than 10% of our Asset Management segment net revenue for the years ended December 31, 2007, 2006 or 2005.

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The geographical distribution of Asset Management net revenue is set forth below in percentage terms:

	Year Ended December 31,		
	2007	2006	2005
United States	54%	58%	59%
Europe	37	35	33
Rest of World	9	7	8
Total	100%	100%	100%

Asset Management Results of Operations

Year Ended December 31, 2007 versus December 31, 2006

Asset Management net revenue grew $172 million, or 31%, versus 2006. Management fees for 2007 increased $145 million, or 32%, versus 2006 driven by a 34% increase in average AUM. However, the impact of a change in the mix of investment products, resulted in a slightly lower percentage growth rate in management fees versus the growth rate of average AUM. Incentive fees earned for 2007 were $8 million higher than the amount recorded for 2006 with the increase driven principally from traditional products. Other income increased $18 million, or 42%, versus 2006 principally as a result of higher net interest income on customer deposits and higher average cash balances, increased commissions on client transactions, and higher LAM GP-related revenue.

Operating expenses for 2007 increased $122 million, or 29%, versus 2006. Compensation and benefits expense increased $88 million, or 35%, due to higher incentive compensation resulting from operating revenue growth, amortization of an increased amount of RSUs, and additional compensation related to strategic headcount growth. Other operating expenses increased $34 million, or 20%, versus 2006, principally due to higher costs for occupancy, fund administration and servicing associated with the growth in AUM and other business development activities including recruiting.

Asset Management operating income grew $50 million or 37%, in 2007, as compared to the prior year. Operating income as a percentage of segment net revenue was 26% for 2007 versus 24% for 2006 with the increase in the ratio due to higher net revenue.

Year Ended December 31, 2006 versus December 31, 2005

Asset Management net revenue grew $87 million, or 19%, in 2006 versus 2005. Management fees for 2006 grew $61 million, or 16%, which was slightly higher than the 13% increase in average AUM for 2006 principally due to a shift in AUM to higher fee based products. Incentive fees earned for 2006 increased $14 million versus 2005 due to stronger performance in alternative investment funds. Other income increased $11 million versus 2005 primarily due to increases in investment gains, net interest income, commissions and LAM GP-related revenue.

Operating expenses increased $68 million, or 20%, versus 2005. Compensation and benefits expense increased $51 million, or 26%, as compared to 2005, reflecting increased incentive compensation due to operating revenue growth, as well as the inclusion, for periods subsequent to the equity public offering, of all payments for services rendered by managing directors and employee members of LAM in compensation and benefits expense which had previously been accounted for as minority interest in net income. Other operating expenses increased $17 million in the aggregate, or 11%, versus 2005, principally due to higher professional fees for outsourced services and increases in legal fees and support costs.

Asset Management operating income for 2006 was $19 million higher than 2005. Operating income as a percentage of segment net revenue declined 1% versus 2005, with the decline in 2006 attributable to the increase

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in compensation expense for the year, partially offset by higher revenues versus 2005. Historical results for the period prior to the equity public offering on May 10, 2005 and subsequent thereto are not comparable.

Corporate

The following table summarizes the results of the Corporate segment:

	Year Ended December 31,		
	2007	2006	2005(b)
	($ in thousands)		
Interest Income	$ 68,905	$ 30,092	$ 23,943
Interest Expense	(136,597)	(98,730)	(73,601)
Net Interest (Expense)	(67,692)	(68,638)	(49,658)
Other Revenue	20,453	35,644	20,100
Net Revenue (Expense)	(47,239)	(32,994)	(29,558)
Operating Expenses	38,889	26,173	20,255
Operating Income (Loss)	$ (86,128)	$ (59,167)	$ (49,813)

	As of December 31,		
	2007	2006	2005
Headcount (a):			
Managing Directors	8	8	8
Limited Managing Directors		1	1
Other Employees:			
Business segment professionals	9	8	11
All other professionals and support staff	625	640	673
Total	642	657	693

(a) Includes headcount related to support functions.
(b) Historical results for the period prior to the equity public offering on May 10, 2005 and subsequent thereto are not comparable.

Corporate Results of Operations

Year Ended December 31, 2007 versus December 31, 2006

Net interest expense in 2007 was slightly lower than 2006. During 2007, interest income increased from higher average cash balances, principally as a result of the proceeds from the December 2006 primary offering and the June 2007 issuance of $600 million principal amount of

6.85% senior notes, which was offset by incremental interest expense related to the aforementioned senior notes issuance.

Other revenue declined $15 million, or 43%, in 2007 versus 2006, principally due to lower investment income of $13 million, principally the result of the widening of credit spreads due to sub-prime concerns in the debt markets and volatility in the equity markets during the fourth quarter of 2007, which resulted in mark-downs in LFB s portfolio of corporate debt securities and other temporary Corporate investments in equities, partially offset by increases in foreign currency gains. In addition, the Company recorded a $9 million gain in connection with its share in the net proceeds related to the sale of a portion of LFCM Holdings ownership interest in PG&C in 2007 (see Note 18 of Notes to Consolidated Financial Statements), while 2006 included a $14 million gain recognized as a result of the termination of the strategic alliance with Intesa in 2006.

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Operating expenses in 2007 increased $13 million, or 49%, versus 2006 due primarily to an increase in the provision pursuant to the tax receivable agreement with LFCM Holdings of $11 million (see Note 17 of Notes to Consolidated Financial Statements) and, to a lesser extent, increased compensation, as a result of higher consolidated operating revenue and amortization of an increased amount of RSUs in 2007.

Year Ended December 31, 2006 versus December 31, 2005

Net interest expense in 2006 increased $19 million, or 38%, principally due to the incremental interest expense on financings related to the issuance of debt and equity security units that occurred on May 10, 2005 in connection with the equity public offering and recapitalization, with such debt and equity security units outstanding for the full year in 2006 as compared to only part of 2005.

Other income increased $16 million, or 77%, in 2006 principally reflecting a gain of approximately $14 million recognized upon the termination of the strategic alliance with Intesa.

Operating expenses in 2006 increased $6 million, or 29%, versus 2005, due to a $3 million increase to the provision pursuant to the tax receivable agreement with LFCM Holdings and the inclusion, for the period subsequent to the equity public offering, of amortization of RSUs and all payments for services rendered by our managing directors in compensation and benefits expense.

Cash Flows

The Company s cash flows are generated from operating, financing, and investment activities. With respect to operating activities, cash flow is influenced by the timing of the receipt of fee income, distributions to shareholders and payment of incentive compensation to managing directors and employees. M&A and Asset Management fees are generally collected within 60 days of billing, while restructuring fee collections may extend beyond 60 days, particularly those that involve bankruptcies with court-ordered holdbacks. Fees from our private fund advisory activities are generally collected over a four year period from billing and typically include an interest component.

Lazard traditionally pays a substantial portion of incentive compensation during the first four months of each calendar year with respect to the prior year s results.

Summary of Cash Flows:

	Year Ended December 31, 2007	2006
	($ in millions)	
Cash Provided By (Used In):		
Operating activities:		
Net income	$ 155.0	$ 93.0
Noncash charges (a)	315.4	188.0
Other operating activities (b)	(398.7)	(43.0)

Net cash provided by operating activities	71.7	238.0
Investing activities (c)	(222.8)	(8.1)
Financing activities (d)	243.2	229.9
Effect of exchange rate changes	(5.8)	17.4
Net Increase in Cash and Cash Equivalents	86.3	477.2
Cash and Cash Equivalents:		
Beginning of Year	969.5	492.3
End of Year	$ 1,055.8	$ 969.5

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(a) Consists of the following:

Depreciation and amortization of property	$ 16.7	$ 14.3
Amortization of deferred expenses, stock units and interest rate hedge	111.0	26.3
Deferred tax benefit	(16.4)	(4.3)
Amortization of intangible assets related to acquisitions	21.5	
Minority interest in net income	182.6	165.4
Gain on termination of strategic alliance in Italy		(13.7)
	$ 315.4	$ 188.0

(b) Includes net changes in operating assets and liabilities.

(c) In 2007, relates principally to business acquisitions and purchases of available-for-sale securities, as well as the net additions and disposals of property in both years.

(d) Primarily includes distributions to minority interest holders, repayments of senior and subordinated debt, Class A common stock dividends, repurchases of common membership interests from LAZ-MD Holdings and shares of Class A common stock and, in 2007, the issuance of the $600 million principal amount of 6.85% senior notes. The year ended December 31, 2006 also includes the net proceeds from the sale of 8,050,400 shares of Lazard Class A common stock (the Primary Offering).

Liquidity and Capital Resources

The Company s liquidity and capital resources are derived from operating activities, financing agreements and equity offerings.

Operating Activities

Net revenue, operating income and cash receipts fluctuate significantly between quarters. In the case of Financial Advisory, fee receipts are principally dependent upon the successful completion of client transactions, the occurrence and timing of which is irregular and not subject to Lazard s control. In the case of Asset Management, incentive fees earned on AUM are generally not earned until the end of the applicable measurement period, which is generally the fourth quarter of Lazard s fiscal year with the respective receivable collected in the first quarter of the following year.

Liquidity is significantly impacted by incentive compensation payments that are made during the first four months of the year. As a consequence, cash on hand generally declines in the beginning of the year and gradually builds over the remainder of the year. We also pay certain tax advances during the year on behalf of our managing directors, which serve to reduce their respective incentive compensation payments. We expect this seasonal pattern of cash flow to continue.

Lazard s consolidated financial statements are presented in U.S. dollars. Many of Lazard s non-U.S. subsidiaries have a functional currency, *i.e.*, the currency in which operational activities are primarily conducted, that is other than the U.S. dollar, generally the currency of the country in which such subsidiaries are domiciled. Such subsidiaries assets and liabilities are translated into U.S. dollars at the respective balance sheet date exchange rates, while revenue and expenses are translated at average exchange rates during the year based on the daily closing exchange rates. Adjustments that result from translating amounts from a subsidiary s functional currency are reported as a component of members equity/stockholders equity (deficiency). Foreign currency remeasurement gains and losses on transactions in non-functional currencies are included on the consolidated statements of income (see Note 3 of Notes to Consolidated Financial Statements).

We regularly monitor our liquidity position, including cash levels, credit lines, principal investment commitments, interest and principal payments on debt, capital expenditures and matters relating to liquidity and to compliance with regulatory net capital requirements. We maintain lines of credit in excess of anticipated

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liquidity requirements. As of December 31, 2007, Lazard had approximately $231 million in unused lines of credit available to it, including $61 million of unused lines of credit available to LFB.

Lazard s annual cash flow generated from operations historically has been sufficient to enable it to meet its annual obligations. We believe that our cash flows from operating activities, including use of our credit lines as needed, should be sufficient for us to fund our current obligations for the next 12 months and beyond. As noted above, we intend to maintain lines of credit that can be utilized should the need arise. These credit lines include a $150 million senior revolving credit facility with a group of lenders that expires in May, 2010. As of December 31, 2007, there were no amounts outstanding under this credit facility. The senior revolving credit facility contains customary affirmative and negative covenants and events of default for facilities of this type which, among other things, limit the ability of the borrower to incur debt, grant liens, pay dividends, enter into mergers or to sell all or substantially all of its assets and contains financial covenants that must be maintained. We may, to the extent required and subject to restrictions contained in our financing arrangements, use other financing sources in addition to any new credit facilities. In addition, the indenture and supplemental indentures relating to Lazard Group s senior notes contain certain covenants, events of default and other customary provisions.

Financing Agreements

Over the past several years, Lazard has entered into several financing agreements designed to strengthen both its capital base and liquidity, the most significant of which are described below. Each of these agreements is discussed in more detail in our consolidated financial statements and related notes included elsewhere in the Form 10-K. The table below sets forth our corporate indebtedness as of December 31, 2007 and 2006.

	Maturity Date	As of December 31, 2007	2006	Increase (Decrease)
		($ in millions)		
Senior Debt:				
6.85%(a)	2017	$ 600.0	$	$ 600.0
7.125%	2015	550.0	550.0	
6.12%(b)	2008 - 2035	437.5	437.5	
4.25%(a)	2008		96.0	(96.0)
Subordinated Debt:				
4.60%(a)	2008		50.0	(50.0)
3.25%(c)	2016	150.0	150.0	
Total Senior and Subordinated Debt		$ 1,737.5	$ 1,283.5	$ 454.0

(a) On June 21, 2007, Lazard Group issued $600 million aggregate principal amount of 6.85% senior notes due June 15, 2017. In connection with the issuance of these senior notes, a portion of the net proceeds was used to repay Lazard Group s $96 million senior promissory note and $50 million subordinated promissory note, each of which was scheduled to mature in February, 2008, and were each redeemed on June 29, 2007. Lazard Group has used or intends to use the remaining net proceeds from the issuance of the 6.85% senior notes for (i) expansion of its Financial Advisory and Asset Management businesses, (ii) other strategic acquisitions or investments and (iii) general corporate purposes. See Notes 8 and 12 of Notes to Consolidated Financial Statements.

(b) Maturity date can vary based on a remarketing of the 6.12% senior notes, and will mature (i) in the event of a successful remarketing, on any date no earlier than May 15, 2010 and no later than May 15, 2035, as we may elect, (ii) in the event of a failed remarketing, on May 15, 2008 and (iii) otherwise on May 15, 2035. See Notes 2 and 12 of Notes to Consolidated Financial Statements.

(c) As described in more detail in Note 8 of Notes to Consolidated Financial Statements, on May 15, 2006 Lazard Group completed the termination of its strategic alliance with Intesa. In connection with the termination, the then existing $150 million subordinated convertible note held by Intesa was amended and restated, among other things, to provide for its convertibility into shares of Lazard Ltd Class A common

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stock at an effective conversion price of $57 per share. One-third in principal amount will each generally be convertible after July 1, 2008, July 1, 2009, and July 1, 2010, with no principal amounts convertible after June 30, 2011.

As of December 31, 2007, Lazard was in compliance with all of its obligations under its various borrowing arrangements.

Equity Financings

As described in more detail in Note 2 of Notes to Consolidated Financial Statements, on December 6, 2006, Lazard Ltd sold 8,050,400 shares of its Class A common stock in the Primary Offering. The offering price to the public was $45.42 per share, and the offering provided Lazard Ltd with net proceeds of approximately $349 million, after underwriters discount of 3.75% and $2.8 million of other expenses. In conjunction with the Primary Offering, a secondary offering (the Secondary Offering) of 6,000,000 shares were offered to the public by certain current and former managing directors of Lazard and their permitted trustees (the Selling Shareholders). The 6,000,000 shares offered in the Secondary Offering were also newly-issued Class A common shares as a result of the Selling Shareholders exchanging an equivalent amount of their membership interests in Lazard Group (received in exchange for their membership interests in LAZ-MD Holdings). Lazard Ltd did not receive any proceeds from the sale of common stock in the Secondary Offering.

Regulatory Capital

We actively monitor our regulatory capital base. Our principal subsidiaries are subject to regulatory requirements in their respective jurisdictions to ensure their general financial soundness and liquidity, which require, among other things, that we comply with certain minimum capital requirements, record-keeping, reporting procedures, relationships with customers, experience and training requirements for employees and certain other requirements and procedures. These regulatory requirements may restrict the flow of funds to affiliates. Regulatory approval is generally required for paying dividends in excess of certain established levels. See Note 19 of Notes to Consolidated Financial Statements for further information. These regulations differ in the U.S., the U.K., France, and other countries in which we operate. Our capital structure is designed to provide each of our subsidiaries with capital and liquidity consistent with its business and regulatory requirements. For a discussion of regulations relating to us, see Item 1-Business Regulation included in this Form 10-K.

Contractual Obligations

The following table sets forth information relating to Lazard s contractual obligations as of December 31, 2007:

	Contractual Obligations Payment Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
			($ in thousands)		
Operating Leases (exclusive of $68,391 of sublease income)	$ 488,064	$ 71,227	$ 112,602	$ 87,940	$ 216,295
Capital Leases (including interest)	37,192	3,282	6,294	6,218	21,398
Senior Debt (including interest)(a)	2,276,115	528,657	160,575	160,575	1,426,308
Subordinated Debt (including interest) (b)	192,656	4,875	9,750	9,750	168,281
Private Equity Commitments:					
LAI-managed funds (c)	77,883	27,883	50,000		

Other (d)	26,166	25,098	474	556	38
Contractual Commitments to Managing Directors, Senior Advisors and Employees (e)	85,542	50,330	24,080	8,682	2,450
Total (f)	$ 3,183,618	$ 711,352	$ 363,775	$ 273,721	$ 1,834,770

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(a) Includes $437.5 million relating to Lazard Group 6.12% senior notes issued in connection with the issuance of the ESUs, for which the maturity date of the debt component can vary based on a remarketing of the notes, and will mature (1) in the event of a successful remarketing, on any date no earlier than May 15, 2010 and no later than May 15, 2035, as we may elect, (2) in the event of a failed remarketing, on May 15, 2008 and (3) otherwise on May 15, 2035. For purposes of the table above, a maturity in 2008, the earliest possible date, was assumed to be the maturity date of the Lazard Group notes. See Notes 2 and 12 of Notes to Consolidated Financial Statements.

(b) The Amended $150 million Subordinated Convertible Note matures on September 30, 2016, has a fixed interest rate of 3.25% per annum and is convertible into shares of Lazard Ltd Class A common stock at an effective conversion price of $57 per share. One-third in principal amount will generally be convertible after July 1, 2008, an additional one-third after July 1, 2009 and the last one-third after July 1, 2010, and no principal amount will be convertible after June 30, 2011. For purposes of the table above, the Amended $150 million Subordinated Convertible Note was considered to remain outstanding until its maturity date, with no assumed conversions into Class A common stock prior thereto. See Note 8 of Notes to Consolidated Financial Statements.

(c) Pursuant to the business alliance agreement, Lazard Group has commitments to fund certain investment funds managed by LAI. Amounts in the table above relate to (1) obligations related to Corporate Partners II Limited, a private equity fund formed in February 2005, with $1 billion of institutional capital commitments and a $100 million capital commitment from Lazard Group, the principal portion of which may require funding at any time through 2010. As of December 31, 2007, Lazard Group contributed approximately $24 million of its capital commitment, with Lazard s remaining commitment of approximately $76 million as of December 31, 2007 estimated to be funded in the amounts of $26 million, $25 million, and $25 million in the years ending December 31, 2008, 2009 and 2010, respectively; (2) obligations related to Lazard Senior Housing Partners LP, a private equity fund which closed during 2006, with $201 million of capital commitments from institutional investors, including $10 million from Lazard Group, the principal portion of which will require funding at any time through 2008. As of December 31, 2007, Lazard Group contributed approximately $8 million of its capital commitment, with Lazard s remaining commitment of approximately $2 million as of December 31, 2007 estimated to be funded in the year ending December 31, 2008.

(d) Primarily represents a capital commitment through 2017 of approximately $44 million to a mezzanine fund in which the Company has invested approximately $22 million as of December 31, 2007, with Lazard s remaining commitment of approximately $22 million required to be funded when called upon (for purposes of the table above such remaining commitment is being reflected as Less than 1 year). See Note 13 of Notes to Consolidated Financial Statements.

(e) The Company has agreements relating to future minimum payments to certain managing directors, senior advisors and employees incurred for the purpose of recruiting and retaining these senior professionals.

(f) The table above does not include:

(1) any contingent obligations relating to the LAM equity rights;

(2) any potential payment related to the Natixis cooperation arrangement (the level of this contingent payment to Natixis would depend, among other things, on the level of revenue generated by the cooperation activities, and the potential payment is limited, as of December 31, 2007, to a maximum of approximately 0.8 million (subject to further reduction in certain circumstances) which would only occur if the cooperation activities generate no revenue over the course of the remaining initial period of such activities, the cooperation agreement is not renewed and Lazard Ltd s Class A common stock price fails to sustain certain price levels);

(3) the contingent limited partner capital commitment as described in Note 9 of Notes to Consolidated Financial Statements;

(4) the lending commitments and indemnifications provided by LFB to third parties as described in Note 13 of Notes to Consolidated Financial Statements;

(5) the 2008 pension fund obligation of approximately $16.5 million as described in Note 16 of Notes to Consolidated Financial Statements;

(6) any contingent obligation related to the guarantees described in Note 13 of Notes to Consolidated Financial Statements;

(7) commitments related to the business acquisitions and joint venture investment as described in Note 7 of Notes to Consolidated Financial Statements;

(8) Lazard Funding s January, 2008 purchase from Sapphire Industrial Corp. (Sapphire) of 5 million units at a price of $10.00 per unit ($50 million) and 12.5 million warrants at a price of $1.00 per warrant ($12.5 million) in connection with Sapphire s initial public offering (the Sapphire IPO). In addition, the table above excludes (i) the Company s contingent commitment to purchase up to an additional $37.5 million of Sapphire common shares subsequent to the Sapphire IPO and (ii) LFCM Holdings right to purchase from Lazard Funding, at its cost of $10.00 per unit, up to 2 million Sapphire units (up to $20 million). See Note 13 of Notes to Consolidated Financial Statements for additional information relating to Sapphire and the Sapphire IPO; and

(9) a February, 2008 purchase agreement with a member of LAZ-MD Holdings to purchase 500,000 shares of Lazard Ltd Class A common stock for approximately $18.9 million, which will settle on May 12, 2008. See Note 14 of Notes to Consolidated Financial Statements.

In addition the table above does not include any recognition of the May, 2008 settlement of the purchase contracts component of the ESUs which require the holders to purchase an aggregate of $437.5 million of the Lazard Ltd Class A common stock for cash or exchange of outstanding debt, depending on the success of the remarketing of such debt see (a) above. This obligation is collateralized by the entire $437.5 million principal amount of Lazard Group notes outstanding. See Notes 2 and 12 of Notes to Consolidated Financial Statements. Also, the table above does not include any possible payments for uncertain tax positions, as we are unable to estimate the timing of any such payments. The amount of unrecognized tax benefits at December 31, 2007 is $32,080, excluding interest and penalties of $5,195. See Note 17 of Notes to Consolidated Financial Statements.

Effect of Inflation

We do not believe inflation will significantly affect our compensation costs as they are substantially variable in nature. However, the rate of inflation may affect Lazard expenses such as information technology and occupancy costs. To the extent inflation results in rising interest rates and has other effects upon the securities markets, it may adversely affect our financial position and results of operations by reducing AUM, net revenue or otherwise. See Risk Factors Risks Related to Our Business Difficult market conditions can adversely affect our business in many ways, including by reducing the volume of transactions involving our Financial Advisory business and reducing the value or performance of the assets we manage in our Asset Management business, which, in each case, could materially reduce our revenue or income and adversely affect our financial position.

Critical Accounting Policies and Estimates

Management s discussion and analysis of our consolidated financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in conformity with U.S. GAAP. The preparation of Lazard s consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, Lazard evaluates its estimates, including those related to revenue recognition, compensation liabilities, income taxes, investing activities and goodwill. Lazard bases these estimates on historical experience and various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Lazard believes that the critical accounting policies set forth below comprise the most significant estimates and judgments used in the preparation of its consolidated financial statements.

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Revenue Recognition

Lazard generates substantially all of its net revenue from providing financial advisory and asset management services to clients. Lazard recognizes revenue when the following criteria are met:

- there is persuasive evidence of an arrangement with a client,
- the agreed-upon services have been provided,
- fees are fixed or determinable, and
- collection is probable.

Lazard s clients generally enter into agreements with Lazard that vary in duration depending on the nature of the service provided. Lazard typically bills clients for the full amounts due under the applicable agreements on or after the dates on which the specified service has been provided. Generally, payments are collected within 60 days of billing (or over longer periods of time with respect to billings related to restructurings and our private fund advisory activities).

The Company also earns performance-based incentive fees on various investment products, including alternative investment funds such as hedge funds, private equity funds and traditional products. Incentive fees are calculated based on a specified percentage of a fund s net appreciation, in some cases in excess of established benchmarks. Incentive fees on private equity funds also may be earned in the form of a carried interest if profits from investments exceed a specified threshold. These incentive fees are paid at the end of the measurement period. Incentive fees on hedge funds generally are subject to loss carry-forward provisions in which losses incurred by the funds in any year are applied against certain future period net appreciation before any incentive fees can be earned.

The Company records incentive fees at the end of the relevant performance measurement period, when potential uncertainties regarding the ultimate realizable amounts have been determined. The performance fee measurement period is generally an annual period, unless an account terminates during the year. These incentive fees received at the end of the measurement period are not subject to reversal or payback.

Lazard assesses whether collection is probable based on a number of factors, including past transaction history with the client and an assessment of the client s current creditworthiness. If, in Lazard s judgment, collection of a fee is not probable, Lazard will not recognize revenue until the uncertainty is removed. In rare cases, an allowance for doubtful accounts may be established, for example, if a fee is in dispute or litigation has commenced.

Income Taxes

As part of the process of preparing its consolidated financial statements, Lazard is required to estimate its income taxes in each of the jurisdictions in which it operates. This process requires Lazard to estimate its actual current tax liability and to assess temporary differences resulting from differing book versus tax treatment of items, such as deferred revenue, compensation and benefits expense, unrealized gains on investments and depreciation. These temporary differences result in deferred tax assets and liabilities, which are included within Lazard s consolidated statements of financial condition. In addition, as a result of the adoption of Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN No. 48) on January 1, 2007 discussed below, a higher standard must be met before tax benefits can be recognized in the Company s consolidated financial statements beginning in 2007.

Significant management judgment is required in determining Lazard s provision for income taxes, its deferred tax assets and liabilities and any valuation allowance recorded against its net deferred tax assets. At December 31, 2007, the Company recorded deferred tax assets of approximately $477 million, with such amount partially offset by a valuation allowance of approximately $428 million due to the uncertainty of realizing the benefits of the book versus tax basis differences and certain net operating loss carry-forwards. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized and, when necessary, valuation allowances are established. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible. Management considers the level of historical taxable income, scheduled reversals of deferred taxes, projected future taxable income and tax planning strategies that can be implemented by the Company in making this assessment. If actual results differ from these estimates or Lazard adjusts these estimates in future periods, Lazard may need to adjust its valuation allowance, which could materially impact Lazard s consolidated financial position and results of operations.

On January 1, 2007, the Company adopted FIN No. 48 which clarifies the more likely than not criteria included in FASB Statement No. 109, *Accounting for Income Taxes,* that must be met prior to recognition of the financial statement benefit of a tax position taken or expected to be taken in a tax return. FIN No. 48 also requires the recognition of a liability for differences between tax positions taken in a tax return and amounts recognized in the financial statements. Management applies the more likely than not criteria included in FIN No. 48 when estimating its income taxes in each of the jurisdictions in which it operates. See Note 17 of Notes to Consolidated Financial Statements herein regarding the adoption of FIN No. 48.

Tax exposures can involve complex issues and may require an extended period of time to resolve. Changes in the geographic mix or estimated level of annual pre-tax income can affect Lazard s overall effective tax rate. Significant management judgment is required in determining Lazard s provision for income taxes, its deferred tax assets and liabilities and any valuation allowance recorded against its net deferred tax assets. Furthermore, Lazard s interpretation of complex tax laws may impact its measurement of current and deferred income taxes.

Valuation of Investments

Investments consist principally of debt securities, equities, investments in alternative asset management funds and other private equity investments. These investments are carried at fair value on the consolidated statements of financial condition, with any increases or decreases in fair value reflected in earnings, to the extent held by our broker-dealer subsidiaries or designated as trading securities under *Statement of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities (SFAS No. 115)*, within our non broker-dealer subsidiaries, and in accumulated other comprehensive income , to the extent designated as available-for-sale securities under SFAS No. 115 until such time they are realized and reclassified to earnings. Gains and losses on investment positions held, which arise from sales or changes in the fair value of the investments, are not predictable and can cause periodic fluctuations in net income or accumulated other comprehensive income .

Equities principally represent the Company s investments in marketable equity securities either held directly or indirectly through asset management funds. Equities are either designated as trading securities under SFAS No. 115 or accounted for pursuant to broker-dealer accounting guidelines depending upon the entity in which such equities are held.

Interests in LAM alternative asset management funds principally represent general partnership interests in LAM-managed hedge funds. The fair value of such interests reflects the pro rata value of the ownership of the underlying securities in the funds, the fair market value of which is determined through quoted market values of the underlying securities as provided by external pricing sources.

Minority interests in LAM alternative asset management funds represent general partnership interests held directly by certain of our LAM managing directors or employees of the Company but controlled and consolidated by Lazard. The associated minority interest amounting to approximately $51 million and $47 million at December 31, 2007 and 2006, respectively, is included in minority interest on the consolidated statements of financial condition (see Note 6 of Notes to Consolidated Financial Statements).

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Private equity investments, which represent approximately 1.9% and 1.1% of total assets at December 31, 2007 and 2006, respectively, are primarily comprised of investments in private equity funds and direct private equity interests that are valued, in the absence of observable market prices, initially at cost, which is subsequently adjusted for additional capital raising transactions such as the issuance of new member interests or through a sale of existing equity to a third party or other events that are indicative of fair value. In the absence of third party transactions, the carrying value of such investments may be adjusted if it is determined that the expected realizable value of the investment differs from the carrying value. In reaching that determination, consideration is given to many factors including, but not limited to, the operating cash flows and financial performance of the investee, trends within sectors and/or regions, underlying business models, expected exit timing and strategy, and any specific rights or terms associated with the investment, such as conversion features, liquidation preferences or restrictions. With respect to the majority of private equity investments, we rely on the third party fund managers for estimates of such fair values.

See Note 5 of Notes to Consolidated Financial Statements for additional information regarding investments.

Goodwill

In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, goodwill has an indefinite life and is tested for impairment annually or more frequently if circumstances indicate impairment may have occurred. In this process, Lazard makes estimates and assumptions in order to determine the fair value of its assets and liabilities and to project future earnings using various valuation techniques. Lazard uses its best judgment and information available to it at the time to perform this review. Because Lazard s assumptions and estimates are used in projecting future earnings as part of the valuation, actual results could differ. See Notes 3 and 10 of Notes to Consolidated Financial Statements.

Consolidation of VIEs

The consolidated financial statements include the accounts of Lazard Group and all other entities in which it has a controlling interest. Lazard determines whether it has a controlling interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity (VIE) under U.S. GAAP.

Voting Interest Entities. Voting interest entities are entities in which (i) the total equity investment at risk is sufficient to enable the entity to finance itself independently and (ii) the equity holders have the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity s activities. Lazard is required to consolidate a voting interest entity that it maintains an ownership interest in if it holds a majority of the voting interest in such entity.

Variable Interest Entities. VIEs are entities that lack one or more of the characteristics of a voting interest entity. If Lazard has a variable interest, or a combination of variable interests, in a VIE and it will absorb a majority of the VIE s expected losses, receive a majority of the VIE s expected residual returns, or both, it is required to consolidate such entity.

Lazard is involved with various entities in the normal course of business that are VIEs and holds variable interests in such VIEs. Transactions associated with these entities primarily include investment management, real estate and private equity investments. Those VIEs for which Lazard was determined to be the primary beneficiary were consolidated in accordance with FIN 46R. Those VIEs included company sponsored venture capital investment vehicles established in connection with Lazard s compensation plans. In connection with the separation, Lazard Group transferred its general partnership interests in those VIEs to a subsidiary of LFCM Holdings. Lazard Group has determined that it is no longer the primary beneficiary with respect to those VIEs and, as a result, the Company no longer consolidates such VIEs.

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Risk Management

The Company encounters risk in the normal course of business and therefore we have designed risk management processes to help manage such risks considering both the nature of our business and our operating model. The Company is subject to varying degrees of credit, market, operational and liquidity risks (see Liquidity and Capital Resources) and monitors these risks at both an entity and on a consolidated basis. Management within each of Lazard s operating locations are principally responsible for managing the risks within its respective businesses on a day-to day basis.

Market and Credit Risks

Lazard is subject to credit and market risks and therefore has established procedures to assess such risks, as well as specific interest rate and currency risk, and has established limits related to various positions.

With respect to LFB s operations, LFB engages in commercial banking activities that primarily include investing in securities, deposit taking and, to a lesser degree, lending. In addition, LFB may take open foreign exchange positions with a view to profit, but does not sell foreign exchange options in this context, and enters into interest rate swaps, forward foreign exchange contracts and other derivative contracts to hedge exposures to interest rate and currency fluctuations.

At December 31, 2007, $963 million, or 88%, of the approximate $1.1 billion of investments, at fair value, represented investments in debt securities held by LFB and Corporate investments in equity securities that are either held directly or indirectly through asset management funds, non-publicly traded funds or though general partnership interests in LAM-managed funds, and are therefore subject to market risks. These investments are monitored daily by management.

Included in the amount above was $585 million of debt securities (representing approximately 61% of investments subject to market risk), substantially all of which were in LFB s portfolio, consisting primarily of corporate bonds (84% of which carried investment grade ratings at December 31, 2007), and secondarily, non-U.S. government securities. These securities are typically held long-term, as part of LFB s asset-liability management program.

The remaining 12% of the investments at December 31, 2007, at fair value, represent (i) private equity and equity method investments that are generally not subject to short-term market fluctuations, and (ii) general partnership interests in LAM alternative asset management funds held directly by certain of our managing directors and employees but which are controlled and consolidated by the Company, and therefore the associated risk remains with the minority interest holders.

At December 31, 2006, $594 million, or 88%, of the $678 million investments, at fair value, represented investments in debt securities held by LFB and Corporate investments in equity securities that were subject to market risks. Included in this amount was $556 million of debt securities (representing approximately 94% of investments subject to market risk), substantially all of which were in LFB s portfolio, consisting primarily of corporate bonds (88% of which held investment grade ratings at December 31, 2006), and secondarily, non-U.S. government securities.

The remaining 12% of the investments at December 31, 2006, at fair value, represents (i) private equity and equity method investments that are generally not subject to short-term market fluctuations and (ii) general partnership interests in LAM alternative asset management funds held directly by certain of our managing directors and employees but which are controlled and consolidated by the Company, and therefore the associated risk remains with the minority interest holders.

At December 31, 2007 and 2006, derivative contracts related primarily to interest rate swaps and exchange rate contracts and are recorded at fair value. Derivative assets amounted to $10 million and $7 million at

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December 31, 2007 and 2006, respectively, with derivative liabilities amounting to $4 million and $2 million, at such respective dates.

The primary market risks associated with LFB s securities portfolio, foreign exchange hedging and lending activities are sensitivity to changes in the general level of credit spreads and interest rate and foreign currency risk. The risk management strategies that we employ use various risk sensitivity metrics to measure such risks and to examine behavior under significant adverse market conditions. The following sensitivity metrics provide the resultant effects on Lazard s operating income as of December 31, 2007:

LFB s credit spread risk, as measured by a 100+/ basis point change in credit spreads totaled $(24) million and $26 million, respectively.

LFB s interest rate risk as measured by a 100+/ basis point change in interest rates totaled $350 thousand and $(440) thousand, respectively.

Foreign currency risk associated with LFB s open positions, in the aggregate, as measured by a 200+/ basis point change against the U.S. dollar, totaled approximately $8 thousand.

LFB fully secures its collateralized financing transactions with debt securities.

Risks Related to Receivables

We maintain an allowance for bad debts to provide coverage for probable losses from our fee and customer receivables. We determine the adequacy of the allowance by estimating the probability of loss based on management s analysis of the client s creditworthiness and specifically reserve against exposures where, in our judgment, the receivables are impaired. At December 31, 2007 total receivables amounted to $1.1 billion, net of an allowance for bad debts of $13 million. As of that date, inter-bank lending, financial advisory and asset management fee, customer and related party receivables comprised 45%, 47%, 5% and 3% of total receivables, respectively. At December 31, 2006 total receivables amounted to $1.2 billion, net of an allowance for bad debts of $11 million. As of that date, inter-bank lending, financial advisory and asset management fee, customer and related party receivables comprised 58%, 34%, 6% and 2% of total receivables, respectively. The M&A and asset management fee receivables collection periods generally are within 60 days of invoice. However, as discussed previously, the collection period for restructuring transactions may extend beyond 60 days, and fee receivables from our private fund advisory activities are generally collected over a four year period. The Company recorded bad debt expense of approximately $1 million and $4 million in the years ended December 31, 2007 and 2006, respectively.

Credit Concentration

To reduce the exposure to concentrations of credit from banking activities within LFB, the Company has established limits for corporate counterparties and monitors the exposure against such limits. At December 31, 2007 LFB had no exposure to an individual counterparty that exceeded $41 million, in the aggregate, excluding inter-bank counterparties.

Risks Related to Short-Term Investments and Corporate Indebtedness

A significant portion of the Company s liabilities has fixed interest rates or maximum interest rates, while its cash and short-term investments generally have floating interest rates. Based on account balances as of December 31, 2007, Lazard estimates that operating income relating to cash and short-term investments and corporate indebtedness would change by approximately $11 million, on an annual basis, in the event interest rates were to increase or decrease by 1%.

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Operational Risks

Operational risk is inherent in all our business and may, for example, manifest itself in the form of errors, breaches in the system of internal controls, business interruptions, fraud or legal actions due to operating deficiencies or noncompliance. The Company maintains a framework including policies and a system of internal controls designed to monitor and manage operational risk and provide management with timely and accurate information. Management within each of the operating companies is primarily responsible for its operational risk programs. The Company has in place a business continuity and disaster recovery programs that manage its capabilities to provide services in the case of a disruption. We purchase insurance programs designed to protect the Company against accidental loss and losses, which may significantly affect our financial objectives, personnel, property, or our ability to continue to meet our responsibilities to our various stakeholder groups.

Recent Accounting Standards

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and enhances disclosures about fair value measurements. This Statement applies to other accounting pronouncements that require the use of fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company believes the adoption of SFAS No. 157 will not have a material impact on the Company s consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* (SFAS No. 159). SFAS No. 159 permits an entity to elect to measure various financial instruments and certain other items at fair value. It provides entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement requires that a business entity report unrealized gains and losses, on items for which the fair value option has been elected, in earnings at each subsequent reporting date. SFAS No. 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007 and will not be applied retrospectively to fiscal years beginning prior to the effective date. We continue to evaluate the provisions of SFAS No. 159 and have not yet determined if we will make any elections for fair value reporting of eligible items under such standard.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141 (R)). SFAS No. 141(R) replaces SFAS No. 141, *Business Combinations* (SFAS No. 141) and supersedes or amends other authoritative literature although it retains the fundamental requirements in SFAS No. 141 that the acquisition method of accounting (which SFAS No. 141 called the *purchase method*) be used for all business combinations and for an acquirer to be identified for each business combination. SFAS No. 141(R) also establishes principles and requirements for how the acquirer: a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141 (R) will apply prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. SFAS No. 141 (R) also requires the acquirer to expense costs related to any acquisitions that close after December 31, 2008.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51* (SFAS No. 160). SFAS No. 160 amends ARB 51 to establish accounting and reporting standards for the noncontrolling (minority) interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. In addition, it also changes the way the consolidated income statement is presented by requiring consolidated net income to include amounts attributable to both the parent and the noncontrolling interest with separate disclosure of each

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component on the face of the consolidated income statement. It does not, however, impact the calculation of earnings per share as such calculation will continue to be based on amounts attributable to the parent. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, and shall be applied prospectively as of the beginning of the fiscal year in which it is initially applied except that the presentation and disclosure requirements shall be applied retrospectively for all periods presented. The Company has not yet determined the impact that SFAS No. 160 will have on its consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Risk Management

Quantitative and qualitative disclosures about market risk are included under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations Risk Management. Because the Capital Markets and Other segment was separated from the operations of the Company in connection with the separation on May 10, 2005, the market risks specific to the Capital Markets and Other segment no longer apply to the Company.

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Item 8. Financial Statements and Supplementary Data

Index to Consolidated Financial Statements*

* These consolidated financial statements reflect the results of operations and financial position of Lazard Ltd, including consolidation of its investment in Lazard Group LLC, formerly known as Lazard LLC and referred to herein as Lazard Group, for all periods presented. Prior to May 10, 2005, the date of Lazard Ltd s equity public offering (as described in Note 1 of the accompanying Notes to Consolidated Financial Statements), the consolidated financial statements included herein represent the financial statements of Lazard Group. The results of operations and financial condition for certain businesses that Lazard Group no longer owns are reported as discontinued operations. The consolidated financial statements do not reflect what the results of operations of Lazard Ltd or Lazard Group would have been had these companies been stand-alone, public companies for the period presented prior to the equity public offering. In addition, the results of operations for the period prior to May 10, 2005 are not comparable to results of operations for subsequent periods. Specifically, prior to May 10, 2005, the results of operations of Lazard Group do not give effect to the following matters:

Payment for services rendered by Lazard Group s managing directors, which, as a result of Lazard Group operating as a limited liability company, historically had been accounted for as distributions from members capital, or in some cases as minority interest, rather than as compensation and benefits expense. As a result, prior to May 10, 2005, Lazard Group s operating income included within the accompanying consolidated financial statements did not reflect payments for services rendered by its managing directors. For periods subsequent to the consummation of the equity public offering, all payments for services rendered by our managing directors and distributions to holders of profit participation interests in Lazard Group (profit participation members) are included within the accompanying consolidated financial statements in compensation and benefits expense .

U.S. corporate federal income taxes, since Lazard Group had operated in the U.S. as a limited liability company that was treated as a partnership for U.S. federal income tax purposes. As a result, Lazard Group s income had not been subject to U.S. federal income taxes. Taxes related to income earned by partnerships represent obligations of the individual partners. Outside the U.S., Lazard Group historically had operated principally through subsidiary corporations and had been subject to local income taxes. Accordingly, prior to May 10, 2005, income taxes reflected within Lazard Group s results of operations included within the accompanying consolidated financial statements are attributable to taxes incurred in non-U.S. entities and to New York City Unincorporated Business Tax (UBT) attributable to Lazard Group s operations apportioned to New York City. For periods subsequent to the equity public offering, the consolidated financial statements of Lazard Ltd include U.S. corporate federal income taxes on its allocable share of the results of operations of Lazard Group, giving effect to the post equity public offering structure.

Minority interest in net income relating to LAZ-MD Holdings ownership interest of Lazard Group s common membership interests. Prior to May 10, 2005, Lazard Ltd had no ownership interest in Lazard Group and all net income was allocable to the then members of Lazard Group. Commencing May 10, 2005, minority interest in net income includes LAZ-MD Holdings ownership interest of Lazard Group s common membership interests.

The use of proceeds from the financing transactions.

The net incremental interest expense related to the financing transactions.

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MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Lazard Ltd and its subsidiaries (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed under the supervision of the Company s principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company s financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Our internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of the Company s management and directors; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2007. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control- Integrated Framework.* Based on management s assessment and those criteria, management believes that the Company maintained effective internal control over financial reporting as of December 31, 2007.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company s independent registered public accounting firm, Deloitte & Touche LLP, audited the Company s internal control over financial reporting as of December 31, 2007, as stated in their report which appears under Reports of Independent Registered Public Accounting Firm.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Lazard Ltd:

We have audited the internal control over financial reporting of Lazard Ltd and subsidiaries (the Company) as of December 31, 2007 based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report On Internal Control Over Financial Reporting . Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2007 of the Company and our report dated February 27, 2008 expressed an unqualified opinion on those consolidated financial statements and financial statement schedule.

/s/ Deloitte & Touche LLP

New York, New York

February 27, 2008

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Lazard Ltd:

We have audited the accompanying consolidated statements of financial condition of Lazard Ltd and subsidiaries (the Company) as of December 31, 2007 and 2006, and the related consolidated statements of income, cash flows, and changes in members equity and stockholders equity (deficiency), for each of the three years in the period ended December 31, 2007. Our audits also included the financial statement schedule listed in the Index at Item 8. These consolidated financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on the consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Lazard Ltd and subsidiaries at December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2007, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2008 expressed an unqualified opinion on the Company s internal control over financial reporting.

/s/ Deloitte & Touche LLP

New York, New York

February 27, 2008

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LAZARD LTD

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

DECEMBER 31, 2007 and 2006

(dollars in thousands, except for per share data)

	December 31,	
	2007	**2006**
ASSETS		
Cash and cash equivalents	$ 1,055,844	$ 969,483
Cash segregated for regulatory purposes or deposited with clearing organizations	24,585	16,023
Receivables net:		
Banks	495,821	721,002
Fees	520,883	417,519
Customers	50,187	77,832
Related parties	30,287	18,543
	1,097,178	1,234,896
Investments at fair value:		
Debt	585,433	556,150
Equities	333,796	27,493
Other	169,612	94,749
	1,088,841	678,392
Property (net of accumulated amortization and depreciation of $208,153 and $181,812 at December 31, 2007 and 2006, respectively)	185,509	168,310
Goodwill and other intangible assets	187,909	16,945
Other assets	200,547	124,616
Total assets	$ 3,840,413	$ 3,208,665

See notes to consolidated financial statements.

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LAZARD LTD

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (Continued)

DECEMBER 31, 2007 and 2006

(dollars in thousands, except for per share data)

	December 31,	
	2007	**2006**
LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS EQUITY (DEFICIENCY)		
Liabilities:		
Deposits and other customer payables	$ 858,733	$ 1,195,014
Accrued compensation and benefits	498,058	437,738
Senior debt	1,587,500	1,083,500
Capital lease obligations	27,122	25,445
Related party payables	26,707	9,794
Other liabilities	569,179	442,030
Subordinated debt	150,000	200,000
Total liabilities	3,717,299	3,393,521
Commitments and contingencies		
Minority interest	52,775	55,497
STOCKHOLDERS EQUITY (DEFICIENCY)		
Preferred stock, par value $.01 per share; 15,000,000 shares authorized:		
Series A - 36,607 shares issued and outstanding at December 31, 2007		
Series B - 277 shares issued and outstanding at December 31, 2007		
Common stock:		
Class A, par value $.01 per share (500,000,000 shares authorized; 51,745,825 and 51,554,068 shares issued at December 31, 2007 and 2006, respectively, including shares held by a subsidiary as indicated below)	517	516
Class B, par value $.01 per share (1 share authorized, 1 share issued and outstanding at December 31, 2007 and 2006)		
Additional paid-in-capital	(161,924)	(396,792)
Retained earnings	248,551	127,608
Accumulated other comprehensive income, net of tax	52,491	32,494
	139,635	(236,174)
Less - Class A common stock held by a subsidiary, at cost (1,712,846 and 115,000 shares at December 31, 2007 and 2006, respectively)	(69,296)	(4,179)
Total stockholders equity (deficiency)	70,339	(240,353)
Total liabilities, minority interest and stockholders equity (deficiency)	$ 3,840,413	$ 3,208,665

See notes to consolidated financial statements.

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LAZARD LTD

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

(dollars in thousands, except for per share data)

	Year Ended December 31,		
	2007	2006	2005
REVENUE			
Investment banking and other advisory fees	$1,196,648	$ 946,107	$ 846,390
Money management fees	663,316	510,558	435,015
Interest income	89,942	45,074	34,618
Other	104,893	96,070	63,784
Total revenue	2,054,799	1,597,809	1,379,807
Interest expense	137,110	104,254	78,365
Net revenue	1,917,689	1,493,555	1,301,442
OPERATING EXPENSES			
Compensation and benefits	1,123,068	891,421	698,683(*)
Occupancy and equipment	91,103	74,025	74,104
Marketing and business development	74,508	58,896	59,937
Technology and information services	59,409	49,158	49,251
Professional services	48,508	45,616	29,178
Fund administration and outsourced services	22,045	15,221	9,825
Amortization of intangible assets related to acquisitions	21,523		
Provision pursuant to tax receivable agreement	17,104	5,964	2,685
Other	42,126	26,045	35,417
Total operating expenses	1,499,394	1,166,346	959,080
OPERATING INCOME FROM CONTINUING OPERATIONS	418,295	327,209	342,362(*)
Provision for income taxes	80,616	68,812	58,985(*)
INCOME FROM CONTINUING OPERATIONS BEFORE MINORITY INTEREST IN NET INCOME	337,679	258,397	283,377(*)
Minority interest in net income	182,637	165,412	122,315
INCOME FROM CONTINUING OPERATIONS	155,042	92,985	161,062(*)
LOSS FROM DISCONTINUED OPERATIONS (net of income tax provision of $3,330)			(17,576)(*)
NET INCOME (NET INCOME ALLOCABLE TO MEMBERS OF LAZARD GROUP PRIOR TO MAY 10, 2005)	$ 155,042	$ 92,985	$ 143,486(*)
WEIGHTED AVERAGE SHARES OF CLASS A COMMON STOCK OUTSTANDING:			
Basic	51,185,639	38,432,815	37,500,000
Diluted	62,212,617	44,166,131	37,561,138

NET INCOME PER SHARE OF CLASS A COMMON STOCK:			
Basic	$3.04	$2.42	$1.45 (**)
Diluted	$2.79	$2.31	$1.45 (**)
DIVIDENDS PAID PER SHARE OF CLASS A COMMON STOCK	$0.36	$0.36	$0.142(**)

(*) Excludes, as applicable, with respect to the period prior to May 10, 2005 (a) payments for services rendered by Lazard Group s managing directors, which, as a result of Lazard Group operating as a limited liability company, historically had been accounted for as distributions from members capital, or in some cases as minority interest, rather than as compensation and benefits expense, and (b) U.S. corporate federal income taxes, since Lazard Group has operated in the U.S. as a limited liability company that was treated as a partnership for U.S. federal income tax purposes.

(**) Net income per share is applicable with respect to periods subsequent to May 10, 2005, the date of our equity public offering. Losses related to discontinued operations were incurred prior to May 10, 2005. Therefore, such losses are borne entirely by the historical members of Lazard Group, and do not affect net income per share of Lazard Ltd.

See notes to consolidated financial statements.

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LAZARD LTD

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

(dollars in thousands)

	Year Ended December 31,		
	2007	**2006**	**2005**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (net income allocable to members of Lazard Group prior to May 10, 2005)	$ 155,042	$ 92,985	$ 143,486
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Noncash charges (credits) included in net income:			
Depreciation and amortization of property	16,734	14,282	15,348
Amortization of deferred expenses, stock units and interest rate hedge	110,995	26,318	2,895
Amortization of intangible assets related to acquisitions	21,523		
Deferred tax benefit	(16,391)	(4,290)	(7,558)
Minority interest in net income	182,637	165,412	122,315
Gain on termination of strategic alliance in Italy		(13,695)	
(Increase) decrease in operating assets:			
Cash segregated for regulatory purposes or deposited with clearing organizations	(6,309)	6,667	(10,433)
Receivables-net	229,505	(387,922)	(108,618)
Investments-at fair value	(262,080)	(265,419)	258,520
Other assets	(42,777)	(28,690)	2,462
Assets of discontinued operations			1,485,363
Increase (decrease) in operating liabilities:			
Deposits and other payables	(425,469)	559,371	38,638
Accrued compensation and benefits and other liabilities	108,320	73,020	175,401
Liabilities of discontinued operations			(1,223,257)
Net cash provided by operating activities	71,730	238,039	894,562
CASH FLOWS FROM INVESTING ACTIVITIES:			
Business acquisitions, net of cash acquired of $19,002	(135,060)		
Additions to property	(16,441)	(10,163)	(7,815)
Disposals of property	1,915	1,971	11,694
Purchases of available-for-sale securities	(73,235)		
Net cash provided by (used in) investing activities	(222,821)	(8,192)	3,879
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of:			
Class A common stock, net of expenses		349,137	871,656
Class B common stock			1
Equity security units, net of expenses			421,559
Senior debt, net of expenses	593,485		544,724
Net short-term borrowings	4,429		17,085
Indemnity from LFCM Holdings relating to U.K. pension			53,600
Payments for:			
Senior debt	(96,000)		(57,650)
Subordinated debt	(50,000)		
Capital lease obligations	(1,423)	(1,115)	(21,902)
Distributions to members and capital withdrawals			(418,412)
Distributions to minority interests	(99,000)	(67,952)	(72,263)
Distribution of separated business			(243,178)
Distribution to LAZ-MD holdings and LFCM Holdings			(150,000)

Repurchase of common membership interest from LAZ-MD Holdings	(21,840)		(4,507)
Redemption of historical partners interests			(1,617,032)
Repurchase of Class A common stock	(68,052)	(4,179)	
Class A common stock dividends	(18,308)	(13,480)	(5,325)
Net repayments of short-term borrowings		(31,025)	
Settlement of interest rate hedge			(11,003)
Purchase of contracts relating to equity security units			(6,013)
Other financing activities	(21)	(1,497)	
Net cash provided by (used in) financing activities	243,270	229,889	(698,660)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(5,818)	17,438	(13,225)
NET INCREASE IN CASH AND CASH EQUIVALENTS	86,361	477,174	186,556
CASH AND CASH EQUIVALENTS January 1	969,483	492,309	305,753
CASH AND CASH EQUIVALENTS December 31	$ 1,055,844	$ 969,483	$ 492,309
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Supplemental investing non-cash transaction:			
Preferred stock and Class A common stock issued/issuable in connection with acquisitions	$ 52,768	$	$
Supplemental financing non-cash transaction:			
Issuance of senior promissory note for the acquisition of equity interest in Italy	$	$ 96,000	$
Cash paid during the year for:			
Interest	$ 141,349	$ 93,714	$ 81,970
Income taxes	$ 81,680	$ 76,483	$ 24,776

See notes to consolidated financial statements.

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LAZARD LTD

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS EQUITY AND

STOCKHOLDERS EQUITY (DEFICIENCY)

FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

(dollars in thousands)

	Members Equity	Preferred Stock Series A Shares	$	Series B Shares	$	Common Stock Shares(*)	$	Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Income, Net of Tax	Class A Common Stock Held By A Subsidiary Shares	$	Total Members Equity and Stockholders Equity (Deficiency)
Balance January 1, 2005	**$ 366,740**									**$ 18,058**			**$ 384,798**
Comprehensive income (loss):													
Net income allocable to members for the period January 1, 2005 through May 9, 2005	89,175												89,175
Net income available for Class A common stockholders for the period May 10, 2005 through December 31, 2005									$ 54,311				54,311
Net income for the period January 1, 2005 through December 31, 2005													143,486
Other comprehensive income (loss) net of tax:													
Currency translation adjustments										(46,552)			(46,552)
Interest rate hedge, net of amortization										(10,297)			(10,297)
Minimum pension liability adjustments										4,449			4,449
Comprehensive income													91,086
Distribution of net assets of separated businesses	(243,178)												(243,178)
Indemnity from LFCM Holdings relating to U.K. pension	53,600												53,600
Net proceeds from issuance of Class A common stock in equity public offering, including $32,921 issued in cashless exchange						37,500,000	$ 375	$871,281					871,656
Issuance of Class B common stock						1		1					1
	(418,412)												(418,412)

Distributions and withdrawals to members								
Redemption of historical partner interests	(1,517,032)							(1,517,032)
Costs related to issuance of purchase contracts associated with equity security units					(12,086)			(12,086)
Purchase contracts associated with equity security units					(6,013)			(6,013)
Distributions to LAZ-MD Holdings and LFCM Holdings	(150,000)							(150,000)
Reclassification to additional paid-in capital	1,819,107				(1,819,107)			
Class A common stock dividends						(5,325)		(5,325)
Lazard Group repurchase of common membership interest from LAZ-MD Holdings					(4,507)			(4,507)
Amortization and issuance of stock units					1,277			1,277
Adjustment to reclassify minority interest share of undistributed net income for the period May 10, 2005 through December 31, 2005 to additional paid-in-capital					83,464			83,464
Balance December 31, 2005	**$**	**$**	**$ 37,500,001**	**$ 375**	**$ (885,690)**	**$ 48,986**	**$ (34,342)**	**$ (870,671)**

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LAZARD LTD

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS EQUITY AND

STOCKHOLDERS EQUITY (DEFICIENCY)

FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005 (Continued)

(dollars in thousands)

	Preferred Stock								Accumulated Other Comprehensive Income, Net of Tax	Class A Common Stock Held By A Subsidiary		Total Stockholders Equity (Deficiency)
	Series A		Series B		Common Stock		Additional Paid-in- Capital	Retained Earnings				
	Shares	$	Shares	$	Shares(*)	$				Shares	$	
Balance - December 31, 2005		**$**		**$**	**37,500,001**	**$ 375**	**$ (885,690)**	**$ 48,986**	**$ (34,342)**		**$**	**$ (870,671)**
Comprehensive income:												
Net income								92,985				92,985
Other comprehensive income - net of tax:												
Currency translation adjustments									50,299			50,299
Amortization of interest rate hedge									1,100			1,100
Minimum pension liability adjustments									13,683			13,683
Comprehensive income												158,067
Adoption of FASB Statement No. 158									1,754			1,754
Amortization and issuance of stock units							23,545					23,545
Conversion of DSUs to Class A common stock					3,668							
RSU dividend-equivalents							883	(883)				
Class A common stock dividends								(13,480)				(13,480)
Purchase of Class A common stock by a subsidiary										115,000	(4,179)	(4,179)
Net proceeds from issuance of Class A common stock in Primary Offering, including issuance of 6,000,000 shares in Secondary Offering					14,050,400	141	348,996					349,137
Other capital transactions							4,510					4,510
Adjustment to reclassify minority interest share of undistributed net income to additional paid-in-capital							110,964					110,964
Balance - December 31, 2006					**51,554,069**	**516**	**(396,792)**	**127,608**	**32,494**	**115,000**	**(4,179)**	**(240,353)**
Adjustment for the cumulative effect on prior years from the adoption of FIN No. 48								(13,221)				(13,221)
Balance, as adjusted - January 1, 2007					**51,554,069**	**516**	**(396,792)**	**114,387**	**32,494**	**115,000**	**(4,179)**	**(253,574)**
Comprehensive income (loss):												
Net income								155,042				155,042
Other comprehensive income (loss) - net of tax:												
Currency translation adjustments									23,426			23,426
Amortization of interest rate hedge									1,100			1,100

Net unrealized loss on available-for-sale securities							(670)			(670)
Employee benefit plans:										
Net actuarial (loss)							(3,440)			(3,440)
Adjustment for items reclassified to earnings							(419)			(419)
Comprehensive income										175,039
Preferred stock and Class A common stock issued/issuable in connection with acquisitions and related amortization	36,607 $	277 $			54,404					54,404
Issuances of Class A common stock in exchange for Lazard Group common membership interests			191,757	1	(1)					
Repurchase of common membership interest from LAZ-MD Holdings					(21,840)					(21,840)
Amortization of stock units					105,586					105,586
RSU dividend-equivalents					2,570	(2,570)				
Class A common stock dividends						(18,308)				(18,308)
Purchase of Class A common stock by a subsidiary								1,678,600	(68,052)	(68,052)
Lazard Group delivery of Class A common stock for settlement of vested RSUs					(2,956)			(80,754)	2,935	(21)
Adjustment to reclassify minority interest share of undistributed net income to additional paid-in-capital					97,105					97,105
Balance December 31, 2007	**36,607 $**	**277 $**	**51,745,826**	**$ 517**	**$ (161,924)**	**$ 248,551**	**$ 52,491**	**1,712,846**	**$ (69,296)**	**$ 70,339**

(*) Includes 51,745,825, 51,554,068 and 37,500,000 shares of the Company s Class A common stock issued at December 31, 2007, 2006 and 2005, respectively, and 1 share of the Company s Class B common stock at each such date.

See notes to consolidated financial statements.

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LAZARD LTD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except for per share data, unless otherwise noted)

1. ORGANIZATION AND BASIS OF PRESENTATION

Organization

The accompanying consolidated financial statements of Lazard Ltd and subsidiaries (collectively referred to as Lazard Ltd or the Company) include, subsequent to May 10, 2005, Lazard Ltd s investment in Lazard Group LLC, a Delaware limited liability company (collectively referred to, together with its subsidiaries, as Lazard Group).

Lazard Ltd is a Bermuda holding company that was incorporated in October 2004. Pursuant to a Registration Statement on Form S-1 declared effective by the SEC on May 4, 2005 (the Registration Statement) for the initial public offering of shares of Lazard Ltd s Class A common stock, par value $0.01 per share (Class A common stock), Lazard Ltd issued on May 10, 2005, at $25 per share, 34,183,162 shares of its Class A common stock in a registered initial public offering (the equity public offering). In addition, on May 10, 2005, pursuant to the Natixis Placements (see Note 2 of Notes to Consolidated Financial Statements) and the cashless exchange of certain of our chief executive officer s interests in Lazard Group with Lazard Ltd, the Company issued 2,000,000 shares of its Class A common stock and 1,316,838 shares of its Class A common stock, respectively. These issuances, together with the 34,183,162 shares of Class A common stock issued pursuant to the equity public offering, resulted in the Company having 37,500,000 shares of its Class A common stock outstanding at the time of the equity public offering. The Company, through a number of newly-formed, wholly-owned subsidiaries, contributed the net proceeds from the equity public offering, along with the net proceeds it received from the financing transactions (as described in Note 2 of Notes to Consolidated Financial Statements), to Lazard Group in exchange for 37,500,000 Lazard Group common membership interests, representing ownership of 37.5% of Lazard Group s total common membership interests as of May 10, 2005, and, after giving effect to (i) the repurchase and forfeiture of a portion of the Lazard Group common membership interests held by LAZ-MD Holdings LLC (LAZ-MD Holdings), as well as (ii) certain other share issuances by Lazard Ltd subsequent to December 31, 2005 (principally related to the primary and secondary offerings of Class A common stock as described in Note 2 of Notes to Consolidated Financial Statements), it held approximately 48.3%, 47.9% and 37.6% of all outstanding Lazard Group common membership interests as of December 31, 2007, 2006 and 2005, respectively. Lazard Ltd, through its control of the managing members of Lazard Group, controls Lazard Group.

LAZ-MD Holdings held approximately 51.7%, 52.1% and 62.4% of the common membership interests in Lazard Group as of December 31, 2007, 2006 and 2005, respectively. Additionally, LAZ-MD Holdings was the sole owner of the one issued and outstanding share of Class B common stock (the Class B common stock) of Lazard Ltd as of December 31, 2007, 2006 and 2005. As of December 31, 2007, 2006 and 2005, the Class B common stock provides LAZ-MD Holdings with approximately 51.7%, 52.1% and 62.4%, respectively, of the voting power but no economic rights in Lazard Ltd. Subject to certain limitations, LAZ-MD Holdings exchangeable interests are exchangeable for Class A common stock.

Lazard Group is governed by an Operating Agreement dated as of May 10, 2005, as amended (the Operating Agreement).

The Company s sole operating asset is its indirect ownership of common membership interests of Lazard Group and its managing member interest of Lazard Group, whose principal operating activities are included in two business segments:

Financial Advisory, which includes providing advice on mergers and acquisitions, restructurings, capital raising and similar transactions, and

LAZARD LTD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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Asset Management, which includes the management of equity and fixed income securities, alternative investment and private equity funds.

In addition, Lazard Group records selected other activities in its Corporate segment, including management of cash, strategic investment activities and the activities of Lazard Group s Paris-based Lazard Frères Banque SA (LFB). LFB is a registered bank regulated by the Banque de France and its primary operations include asset and liability management for Lazard Group s Paris House through its money market desk and commercial banking operations, deposit taking and, to a lesser extent, financing activities and custodial oversight over assets of various clients. LFB also operates many support functions relating to our business in Paris. Lazard Group also allocates outstanding indebtedness to Corporate.

Prior to May 10, 2005, Lazard Group also had a business segment called Capital Markets and Other, which consisted of equity, fixed income and convertibles sales and trading, broking, research and underwriting services and fund management activities outside of France as well as other specified non-operating assets and liabilities. This business segment s assets and liabilities (referred to below as the separated businesses) were separated from Lazard Group on May 10, 2005, and the operating results of this former segment are reflected as discontinued operations for the period prior to May 10, 2005. We refer to the transfer of the separated business as the separation.

The consolidated financial statements include Lazard Ltd, Lazard Group and Lazard Group s principal operating subsidiaries: Lazard Frères & Co. LLC (LFNY), a New York limited liability company, along with its subsidiaries, including Lazard Asset Management LLC and its subsidiaries (collectively referred to as LAM); Compagnie Financière Lazard Frères SAS (CFLF) (formerly Lazard Frères SAS) and Maison Lazard SAS, French limited liability companies, along with their respective subsidiaries, including LFB and Lazard Freres Gestion SAS (LFG); and Lazard & Co., Limited (LCL), through Lazard & Co., Holdings Limited, an English private limited company (LCH); together with their jointly-owned affiliates and subsidiaries.

Basis of Presentation

The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). The Company s policy is to consolidate (i) all majority-owned subsidiaries in which it has a controlling financial interest, (ii) variable interest entities (VIEs) where the Company has a variable interest and is deemed to be the primary beneficiary and (iii) limited partnerships where the Company is the general partner, unless the presumption of control is overcome. When the Company does not have a controlling interest in an entity, but exerts significant influence over the entity s operating and financial decisions, the Company applies the equity method of accounting. All material intercompany transactions and balances have been eliminated.

The accompanying consolidated statements of financial condition as of December 31, 2007 and 2006 reflect the consolidated statements of financial condition of Lazard Ltd and its subsidiaries. The consolidated statements of income, cash flows and changes in members equity and stockholders equity (deficiency) for the years ended December 31, 2007 and 2006 reflect the consolidated operating results, cash flows and changes in equity of Lazard Ltd and its subsidiaries. The consolidated statements of income, cash flows and changes in members equity and stockholders equity (deficiency) for the year ended December 31, 2005 reflect the consolidated operating results, cash flows and changes in equity of Lazard Group and its subsidiaries prior to May 10, 2005, and, from May 10, 2005 through December 31, 2005, reflect the consolidated operating results, cash flows and changes in equity of Lazard Ltd and its subsidiaries.

The accompanying consolidated financial statements do not reflect what the results of operations of the Company would have been had it been a stand-alone, public company for the period January 1, 2005 until the

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equity public offering on May 10, 2005. In addition, the results of operations prior to the equity public offering on May 10, 2005 are not comparable to results of operations for subsequent periods as described below.

Prior to May 10, 2005, Lazard Group s operating income included within the accompanying consolidated financial statements did not reflect payments for services rendered by its managing directors. For periods subsequent to the consummation of the equity public offering as described in Note 2 of Notes to Consolidated Financial Statements, all payments for services rendered by our managing directors and distributions to profit participation members are included within the accompanying consolidated financial statements in compensation and benefits expense.

Prior to May 10, 2005, payments for services rendered by managing directors of LAM (and employee members of LAM) had been accounted for as minority interest in net income and since that date such payments have been included within compensation and benefits expense . See Note 4 of Notes to Consolidated Financial Statements.

Prior to May 10, 2005, the Company s income had not been subject to U.S. corporate federal income taxes, because Lazard Group operated in the U.S. as a limited liability company that was treated as a partnership for U.S. federal income tax purposes. As a result, Lazard Group s income had not been subject to U.S. corporate federal income taxes. Taxes related to income earned by partnerships represent obligations of the individual partners. Outside the U.S., Lazard Group historically had operated principally through subsidiary corporations and had been subject to local income taxes. Accordingly, prior to May 10, 2005, income taxes reflected within Lazard Group s results of operations are attributable to taxes incurred in non-U.S. entities and to New York City Unincorporated Business Taxes (UBT) attributable to Lazard Group s operations apportioned to New York City. For periods subsequent to the equity public offering, the consolidated financial statements of Lazard Ltd include U.S. corporate federal income taxes on its allocable share of the results of operations of Lazard Group, giving effect to the post equity public offering structure.

Commencing May 10, 2005, the consolidated statements of income include a minority interest in net income relating to LAZ-MD Holdings ownership interest of Lazard Group s common membership interests. Prior to May 10, 2005, there was no such minority interest, as Lazard Ltd had no ownership interest in Lazard Group, and all net income was allocable to the then members of Lazard Group.

The use of proceeds from the financing transactions.

The net incremental interest expense related to the financing transactions.

In accordance with U.S. GAAP, the results of operations of the separated businesses have been segregated and are reported as discontinued operations in the consolidated statement of income for the year ended December 31, 2005. See Note 21 of Notes to Consolidated Financial Statements for additional information relating to discontinued operations.

2. *THE SEPARATION AND RECAPITALIZATION TRANSACTIONS IN MAY, 2005, AND PRIMARY AND SECONDARY OFFERINGS IN DECEMBER, 2006*

On May 10, 2005, Lazard completed the separation and recapitalization transactions, including the financing transactions, pursuant to the master separation agreement, dated as of May 10, 2005, by and among Lazard Ltd, Lazard Group, LAZ-MD Holdings and LFCM Holdings LLC (LFCM Holdings) (the master separation agreement).

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The Separation

In the separation, Lazard Group transferred the separated businesses to LFCM Holdings through several steps. First, LAZ-MD Holdings was formed as the new holding company for Lazard Group. Pursuant to this formation, all of the persons who were members of Lazard Group prior to the formation became members of LAZ-MD Holdings and ceased to hold any membership interests in Lazard Group. Lazard Group then contributed the separated businesses to LFCM Holdings, which was then a subsidiary of Lazard Group, and distributed all of the LFCM Holdings interests to LAZ-MD Holdings. After the redemption of the historical partners described below, LAZ-MD Holdings distributed all of the LFCM Holdings interests to its members. Accordingly, after the separation, LFCM Holdings was wholly-owned by the members of LAZ-MD Holdings, including Lazard Group s managing directors at the time of the separation.

In the separation, Lazard Group retained all of the Company s Financial Advisory and Asset Management businesses. In addition, under the business alliance agreement, dated as of May 10, 2005, between Lazard Group and LFCM Holdings (the business alliance agreement), Lazard Group was granted the option to acquire the North American and European fund management activities of LFCM Holdings (see Note 9 of Notes to Consolidated Financial Statements).

The Recapitalization

On the same day as the separation, LAZ-MD Holdings and Lazard Group effected a recapitalization of their companies. The recapitalization had three principal parts the financing transactions, the redemption of the historical partners interests and mandatorily redeemable preferred interests of Lazard Group and the issuance of LAZ-MD Holdings exchangeable interests to working members. Historical partners refers to certain former members of Lazard Group that existed prior to the recapitalization, which consisted of Eurazeo S.A., descendants and relatives of Lazard Group s founders, several historical partners of Lazard Group s predecessor entities, several current and former managing directors and the other members of these classes. Working members refers to members of Lazard Group that existed prior to the recapitalization, which consisted of current and former managing directors of Lazard Group and the separated businesses.

The Financing Transactions

On May 10, 2005, the Company completed the financing transactions, which consisted of:

the equity public offering,

- the initial offering (the ESU offering) of equity security units (the ESUs) in an aggregate principal amount of $287,500,

- the private offering of Lazard Group 7.125% senior notes in an aggregate principal amount of $550,000, and

- the private placement of securities to IXIS Corporate & Investment Bank (IXIS or, following its merger with and into its parent, Natixis), consisting of $150,000 principal amount of ESUs and $50,000 in shares of Class A common stock.

The Company used the net proceeds from the financing transactions primarily to:

- redeem Lazard Group membership interests, including Lazard Group s mandatorily redeemable preferred stock, held by the historical partners for $1,617,032 (including the value of our chief executive officer s historical interests ($32,921), which were exchanged for shares of Lazard Ltd Class A common

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stock in lieu of cash, and the exchange of certain of these membership interests for specific Lazard Group investments valued at $39,774),

capitalize LFCM Holdings and LAZ-MD Holdings in the amount of $67,000 and $83,000, respectively,

repay the 7.53% senior notes due 2011 in an aggregate principal amount of $50,000 as well as a related make-whole payment of $7,650, and

pay transaction fees and expenses.

The Redemption of the Historical Partners Interests and Mandatorily Redeemable Preferred Interests

As noted above, a primary purpose of the financing transactions was the redemption of the historical partners interests and mandatorily redeemable preferred interests of Lazard Group. As part of the recapitalization transactions, historical partner interests and preferred interests generally were redeemed for cash. Interest on manditorily redeemable preferred stock for the year ended December 31, 2005 of an $8,000 credit represents accrued dividends that were cancelled in connection with the redemption of membership interests of historical partners and is included in interest expense on the consolidated statement of income.

Exchange of Working Member Interests for LAZ-MD Holdings Interests

In connection with the formation of LAZ-MD Holdings, the working member interests were exchanged with LAZ-MD Holdings for limited liability company interests in LAZ-MD Holdings. Each holder of a working member interest at the time of the separation and recapitalization transactions received, in exchange for his or her working member interest, a redeemable capital interest in LAZ-MD Holdings consisting of an equivalent amount of capital of LAZ-MD Holdings, an exchangeable interest in LAZ-MD Holdings and, in certain instances, a right to receive distributions from LAZ-MD Holdings. The former holders of working member interests hold all of the limited liability company interests in LAZ-MD Holdings.

Equity Public Offering As described above, on May 10, 2005, Lazard Ltd consummated its equity public offering. The aggregate gross proceeds relating to the offering amounted to $854,579, and net proceeds to Lazard Ltd, after $65,844 of estimated expenses incurred by Lazard Ltd in connection with the issuance and distribution of the Lazard Ltd Class A common stock (including underwriting discounts and commissions, expenses paid to the underwriters and certain other expenses), was $788,735. Lazard Ltd contributed all the net proceeds from this offering to Lazard Group in exchange for a controlling interest in Lazard Group. In the year ended December 31, 2006, additional costs of $2,677 relating to the May, 2005 issuance of Class A common stock were incurred, representing amounts in excess of estimated costs associated with the equity public offering. Such amount was recorded as a reduction of additional paid-in-capital.

Other Financing Transactions See Note 12 of Notes to Consolidated Financial Statements for a discussion regarding the ESU offering, the private offering of Lazard Group 7.125% Senior Notes and Lazard Group s credit facility.

Natixis Placements On May 10, 2005, the Company also completed the Natixis placements. Natixis, which was a subsidiary of Caisse Nationale des Caisses d Epargne (CNCE), purchased an aggregate of $200,000 of the Company s securities, $150,000 of which were ESUs (the Natixis ESU placement) and $50,000 of which were shares of Class A common stock. The terms of the ESUs issued in connection with the Natixis ESU placement are the same as the ESUs described in Note 12 of Notes to Consolidated Financial Statements. The price per security paid by Natixis was equal, in the case of shares of Class A common stock, to

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the price per share in the equity public offering and, in the case of ESUs, the price per unit in the ESU offering. The Company contributed the net proceeds from the sale of Class A common stock to Lazard Group. Lazard Group Finance LLC, a Delaware limited liability company and then an affiliate of the Company (Lazard Group Finance), used the net proceeds from the Natixis ESU placement to purchase Lazard Group 6.12% senior notes with a principal amount of $150,000.

Primary and Secondary Offerings in December, 2006 On December 6, 2006, Lazard Ltd closed an underwritten public offering of additional shares of its Class A common stock. The offering was comprised of a primary offering (the Primary Offering) of 7,000,000 newly-issued shares by Lazard Ltd and a secondary offering (the Secondary Offering) of 6,000,000 shares offered to the public by certain current and former managing directors of Lazard and their permitted transferees (the Selling Shareholders). The 6,000,000 shares offered in the Secondary Offering were also newly-issued shares of Class A common stock as a result of the Selling Shareholders exchanging an equivalent amount of their membership interests in Lazard Group (received in exchange for their membership interests in LAZ-MD Holdings) for newly-issued shares of Class A common stock. In addition, on December 6, 2006, in connection with the Primary Offering and Secondary Offering, the underwriters exercised their over-allotment option to purchase an additional 1,050,400 newly-issued shares of Class A common stock at the same price per share.

The offering price to the public was $45.42 per share, and the price, net of the underwriters discount of 3.75%, was approximately $43.72 per share. Lazard Ltd received net proceeds of $349,137 as the result of the Primary Offering, including the exercise of the underwriters over-allotment option, after estimated expenses of $2,800. Lazard Ltd did not receive any net proceeds from the sales of common stock offered by the Selling Shareholders. Immediately following the Primary Offering, Lazard Ltd and its subsidiaries received 8,050,400 additional Lazard Group common membership interests in exchange for the net proceeds from the Primary Offering. In the Secondary Offering, Lazard Ltd and its subsidiaries received an additional 6,000,000 Lazard Group common membership interests from the exchanging LAZ-MD members in exchange for the issuance to them of 6,000,000 Class A common shares. LAZ-MD members then sold those shares to the public.

As a result of the offerings, Lazard Ltd s ownership interest in Lazard Group increased from 37.7% prior to the offerings to 47.9% subsequent thereto. Correspondingly, LAZ-MD Holdings ownership in Lazard Group decreased from 62.3% prior to the offerings to 52.1% subsequent thereto (see Note 6 for additional information regarding Lazard Ltd s and LAZ-MD Holdings ownership interests in Lazard Group).

Lazard Capital Markets LLC (LCM), a wholly-owned subsidiary of LFCM Holdings, was a member of the underwriting group for both the Primary and Secondary Offerings, and, in such capacity, earned revenue, net of estimated underwriting expenses, of $4,118. The business alliance agreement provides for Lazard Group to receive a referral fee equal to approximately half of the net revenue obtained by LCM in respect of any underwriting or distribution opportunity referred to it by Lazard Group. In that connection, as of December 31, 2006, Lazard Group s consolidated statement of financial condition included a receivable from LFCM Holdings of $2,059, with the portion of such amount relating to the Primary Offering of $1,180 being recorded as an increase to its members equity in the fourth quarter of 2006 and the portion of such amount relating to the Secondary Offering of $879 being recorded in revenue other in such period. See Note 18 of Notes to Consolidated Financial Statements for additional information regarding the business alliance agreement.

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3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies below relate to reported amounts on the consolidated financial statements.

Foreign Currency Translation The consolidated financial statements are presented in U.S. dollars. Many of the Company s non-U.S. subsidiaries have a functional currency (*i.e.*, the currency in which operational activities are primarily conducted) that is other than the U.S. dollar, generally the currency of the country in which such subsidiaries are domiciled. Such subsidiaries assets and liabilities are translated into U.S. dollars at year-end exchange rates, while revenue and expenses are translated at average exchange rates during the year based on the daily closing exchange rates. Adjustments that result from translating amounts from a subsidiary s functional currency to U.S. dollars are reported as a component of Members Equity and Stockholders Equity (Deficiency). Foreign currency remeasurement gains and losses on transactions in non-functional currencies are included on the consolidated statements of income.

Net exchange gains (losses) incurred on foreign currency transactions amounted to $5,657 and $(3,822), respectively, for the years ended December 31, 2007 and 2006 and is included in revenue other on the respective consolidated statements of income. Net exchange gains (losses) incurred on foreign currency transactions for the year ended December 31, 2005 was $5,137 and is included in both revenue other with respect to continuing operations and loss from discontinued operations with respect to discontinued operations on the consolidated statement of income.

Use of Estimates In preparing the consolidated financial statements, management makes estimates and assumptions regarding:

- valuations of assets and liabilities requiring fair value estimates including, but not limited to:
  - investments; and
  - allowance for doubtful accounts;
- the realization of deferred taxes and adequacy of tax reserves;
- the outcome of litigation;

the carrying amount of goodwill and other intangible assets;

the amortization period of intangible assets;

share-based compensation plan forfeitures; and

other matters that affect the reported amounts and disclosure of contingencies in the financial statements.

Estimates, by their nature, are based on judgment and available information. Therefore, actual results could differ from those estimates and could have a material impact on the consolidated financial statements.

Cash and Cash Equivalents The Company defines cash equivalents as short-term, highly liquid securities and cash deposits with original maturities of 90 days or less when purchased.

Cash Segregated for Regulatory Purposes or Deposited with Clearing Organizations Represents restricted cash deposits made by the Company to satisfy the requirements of various non-U.S. regulatory authorities and clearing organizations in which LFB participates as a registered bank.

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Receivables net Receivables, net is comprised of bank receivables, which represent those related to LFB s short-term inter-bank lending with registered banks, fees and receivables from customers, including those related to LFB s lending and collateralized financing activities, and related parties.

In connection with collateralized financing activities, the Company typically receives a pledge of specifically identified securities equal to or greater than the amount of the cash loaned. Collateralized financings, which amounted to $5,241 and $16,858 at December 31, 2007 and 2006, respectively, were secured by pledged collateral of equal value at each such date. Securities owned by customers and pledged to collateralize secured loans receivable are not reflected on the consolidated statements of financial condition.

Receivables are stated net of an estimated allowance for doubtful accounts of $13,290 and $11,316 at December 31, 2007 and 2006, respectively. The Company recorded bad debt expense of $540, $4,020 and $5,597 for the years ended December 31, 2007, 2006 and 2005, respectively, and recorded charge-offs, foreign currency translation and other adjustments, which resulted in a net increase (decrease) to the allowance for doubtful accounts, of $1,434, $(5,415) and $(9,330) for the years ended December 31, 2007, 2006 and 2005, respectively.

Customer receivables at December 31, 2007 and 2006 include $17,555 and $19,330, respectively, of loans granted by LFB to managing directors and employees that are made in the ordinary course of business at market terms.

Investments at fair value Investments in debt and marketable equity securities held either directly or indirectly through asset management funds at the Company s broker-dealer subsidiaries are accounted for at fair value, with any increase or decrease in fair value recorded in earnings in accordance with standard industry practices. Such amounts are reflected in revenue other in the consolidated statements of income.

Investments in debt and marketable equity securities held at the Company s non broker-dealer subsidiaries include trading and available-for-sale securities under Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (SFAS No. 115). Investments in debt and marketable equity securities considered trading securities are accounted for at fair value, with any increase or decrease in fair value reflected in revenue other in the consolidated statements of income. Investments in debt securities considered available-for-sale securities are accounted for at fair value, with any increase or decrease in fair value reported in accumulated other comprehensive income, net of tax , as presented in the Company s consolidated statements of changes in members equity and stockholders equity (deficiency), until such time they are realized and reclassified to earnings. Any declines in fair value of available-for-sale securities that are determined to be other than temporary would be charged to earnings.

Other investments, which principally include general partnership interests in alternative investment asset management funds and private equity investments, are accounted for at fair value.

Dividend income is reflected in revenue other on the consolidated statements of income. Any related interest amounts, including accretion or amortization of any discount or premium arising at acquisition, are included in interest income . Securities transactions and the related revenue and expenses are recorded on a trade date basis.

See Note 5 of Notes to Consolidated Financial Statements for additional information regarding the Company s investments.

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Property-net At December 31, 2007 and 2006 property-net consists of the following:

	Estimated Depreciable Life in Years	December 31, 2007	2006
Buildings	33	$ 185,509	$ 166,648
Leasehold improvements	5-20	158,748	141,084
Furniture and equipment	3-10	49,405	42,390
Total		393,662	350,122
Less Accumulated depreciation and amortization		(208,153)	(181,812)
Property, net		$ 185,509	$ 168,310

Buildings, leasehold improvements, and furniture and equipment are stated at cost, or in the case of buildings under capital leases, the present value of the future minimum lease payments, less accumulated depreciation and amortization. Buildings represent owned property and amounts recorded pursuant to capital leases (Note 13 of Notes to Consolidated Financial Statements), with the related obligations recorded as capital lease obligations. Such buildings are depreciated on a straight-line basis over their estimated useful lives. Leasehold improvements are capitalized and are amortized over the lesser of the economic useful life of the improvement or the term of the lease. Depreciation of furniture and equipment, including computer hardware and software, is determined on a straight-line basis using estimated useful lives. Depreciation and amortization expense aggregating $16,734 and $14,282, respectively, for the years ended December 31, 2007 and 2006 is included in occupancy and equipment and technology and information services on the respective consolidated statements of income. Depreciation and amortization expense for the year ended December 31, 2005 was $15,348 and is included in occupancy and equipment and technology and information services with respect to continuing operations and loss from discontinued operations with respect to discontinued operations on the consolidated statement of income. Repairs and maintenance are expensed as incurred.

Goodwill and Other Intangible Assets In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets,* goodwill has an indefinite life and therefore is required to be tested for impairment annually or more frequently if circumstances indicate impairment may have occurred. The Company assesses whether amounts recorded as goodwill are impaired at any of its applicable entities by comparing the fair value of each entity with its respective carrying amount. In this process, Lazard uses its best judgment and information available to it at the time to perform this review and utilizes various valuation techniques in order to determine the applicable fair values.

Intangible assets that are not deemed to have an indefinite life are amortized over their estimated useful lives and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable as prescribed by SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.* This analysis is performed by comparing the respective carrying value of the intangible asset being reviewed for impairment to the current and expected future cash flows expected to be generated from such asset on an undiscounted basis, including eventual disposition. An impairment loss would be measured for the amount by which the carrying amount of the long-lived asset exceeds its fair value.

See Note 10 of Notes to Consolidated Financial Statements with respect to goodwill and other intangible assets.

Derivative Instruments A derivative is typically defined as an instrument whose value is "derived" from underlying assets, indices or reference rates, such as a future, forward, swap, or option contract, or other financial instrument with similar characteristics. Derivative contracts often involve future commitments to exchange interest payment streams or currencies based on a notional or contractual amount (*e.g.*, interest rate swaps or currency forwards) or to purchase or sell other financial instruments at specified terms on a specified date (*e.g.*, options to buy or sell securities or currencies).

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The Company enters into forward foreign currency exchange rate contracts, interest rate swaps, interest rate futures and other derivative contracts primarily to hedge exposures to fluctuations in interest rates and currency exchange rates. The Company reports its derivative instruments separately as assets and liabilities unless a legal right of set-off exists under a master netting agreement enforceable by law. The Company s derivative instruments are recorded at their fair value as of December 31, 2007 and 2006 and are included in other assets and other liabilities on the consolidated statements of financial condition. Except for derivatives hedging available-for-sale securities under SFAS No. 115, the Company elected to not apply hedge accounting under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities , as amended* (SFAS No. 133) to its other derivative instruments held as of December 31, 2007 and 2006 and, as such, the related gains and losses are included in interest income and interest expense , respectively, or revenue other , depending on the nature of the underlying item, on the consolidated statements of income.

The table below presents the fair values of the Company s derivative instruments as of December 31, 2007 and 2006:

	December 31, 2007	2006
Assets		
Interest rate contracts	$ 5,681	$ 2,750
Exchange rate contracts	4,126	4,493
Other contracts	33	
Total derivative assets	$ 9,840	$ 7,243
Liabilities		
Interest rate contracts	$ 930	$ 922
Exchange rate contracts	3,522	706
Other contracts	36	
Total derivative liabilities	$ 4,488	$ 1,628

Deposits and Other Customer Payables Deposits and other customer payables principally relate to LFB customer-related interest-bearing time and demand deposits, short-term inter-bank borrowing with registered banks and amounts due on collateralized financings.

Collateralized financings amounted to $29,443 and $19,229 at December 31, 2007 and 2006, respectively, and were fully collateralized with pledged assets of equal value at each such date.

Revenue Recognition

Investment Banking and Other Advisory Fees Fees for mergers and acquisitions advisory services and financial restructuring advisory services are recorded when earned, which is generally the date the related transactions are consummated. Transaction related expenses, which are directly related to such transactions and billable to clients, are deferred to match revenue recognition. Client reimbursements of expenses are presented net in investment banking and other advisory fees on the Company s consolidated statements of income. The amounts of expenses reimbursed by clients for the years ended December 31, 2007, 2006 and 2005 are $19,267, $16,534 and $12,360, respectively.

Money Management and Incentive Fees Money management fees are derived from fees for investment management and advisory services provided to institutional and private clients. Revenue is recorded on an

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accrual basis primarily based on a percentage of client assets managed. Fees vary with the type of assets managed, with higher fees earned on equity assets, alternative investment (such as hedge funds) and private equity products, and lower fees earned on fixed income and money market products.

The Company may earn performance-based incentive fees on various investment products, including alternative investment funds such as hedge funds, private equity funds, and traditional products. Incentive fees are calculated based on a specified percentage of a fund s net appreciation, in some cases in excess of established benchmarks. Incentive fees on private equity funds also may be earned in the form of a carried interest if profits from investments exceed a specified threshold. These incentive fees are paid at the end of the measurement period. Incentive fees on hedge funds generally are subject to loss carry-forward provisions in which losses incurred by the funds in any year are applied against certain future period net appreciation before any incentive fees can be earned.

The Company records incentive fees at the end of the relevant performance measurement period, when potential uncertainties regarding the ultimate realizable amounts have been determined. The performance fee measurement period is generally an annual period, unless an account terminates during the year. These incentive fees received at the end of the measurement period are not subject to reversal or payback.

Receivables relating to money management and incentive fees are reported in fees receivable on the consolidated statements of financial condition.

Soft Dollar Arrangements The Company s Asset Management business obtains research and other services through soft dollar arrangements. Consistent with the soft dollar safe harbor established by Section 28(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act), the Asset Management business does not have any contractual obligation or arrangement requiring it to pay for research and other services obtained through soft dollar arrangements with brokers. Instead, the provider is obligated to pay for the services. Consequently, the Company does not incur any liability and does not accrue any expenses in connection with any research or other services obtained by the Asset Management business pursuant to such soft dollar arrangements. If the use of soft dollars is limited or prohibited in the future by regulation, we may have to bear the costs of such research and other services.

Share-Based Payments Pursuant to the Company s 2005 Equity Incentive Plan (the Equity Incentive Plan) (described in more detail in Note 14 of Notes to Consolidated Financial Statements), the Company adopted the fair value recognition provisions under SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123) for equity awards issued under such plan. Accordingly, Lazard recognizes in compensation and benefits expense the amortized portion of the fair value of the equity awards, net of an estimated forfeiture rate, over the service period specified in the award.

Beginning January 1, 2006, Lazard adopted SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123R). Accordingly, share-based awards that do not require future service are expensed immediately. Share-based awards that require future service are amortized over the requisite service period. Lazard adopted SFAS No. 123R under the modified prospective method. Under that method, the provisions of SFAS No. 123R are applied to share-based awards granted subsequent to adoption. Share-based awards granted prior to the adoption of SFAS No. 123R continue to be amortized over the stated service periods of the awards.

As a result of the Company adopting certain provisions consistent with SFAS No. 123R upon the introduction of its 2005 Equity Incentive Plan while under the provisions of SFAS No. 123, there were no significant effects resulting from the adoption of the provisions of SFAS No. 123R.

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Income Taxes Prior to May 10, 2005, the Company had not been subject to U.S. corporate federal income taxes. However, the Company was subject to UBT attributable to Lazard Group s operations apportioned to New York City. In addition, certain non-U.S. subsidiaries of the Company were subject to income taxes in their local jurisdictions. Commencing May 10, 2005, the Company became subject to U.S. corporate federal income tax on its allocable share of the results of operations of Lazard Group, giving effect to the post equity public offering structure, and the Company s provision for income taxes is accounted for under the provisions of SFAS No. 109*, Accounting for Income Taxes* (SFAS No. 109), as interpreted by Financial Accounting Standard Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN No. 48), discussed below.

Deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when such differences are expected to reverse. Such temporary differences are reflected as deferred tax assets and liabilities and are included in other assets and other liabilities , respectively, on the consolidated statements of financial condition.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized and, when necessary, valuation allowances are established. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible. Management considers the level of historical taxable income, scheduled reversals of deferred taxes, projected future taxable income and tax planning strategies that can be implemented by the Company in making this assessment.

On January 1, 2007, the Company adopted FIN No. 48, which clarifies the accounting for and reporting of income tax uncertainties and requires additional disclosures related to uncertain tax positions. The Company s accounting policy provides that interest and penalties related to income taxes is to be included in income tax expense.

See Note 17 of Notes to Consolidated Financial Statements for additional information relating to income taxes.

Reclassifications Certain prior year amounts have been reclassified to conform to the manner of presentation in the current year.

Recent Accounting Pronouncements In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and enhances disclosures about fair value measurements. This Statement applies to other accounting pronouncements that require the use of fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company believes the adoption of SFAS No. 157 will not have a material impact on the Company s consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* (SFAS No. 159). SFAS No. 159 permits an entity to elect to measure various financial instruments and certain other items at fair value. It provides entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement requires that a business entity report unrealized gains and losses, on items for which the fair value option has

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been elected, in earnings at each subsequent reporting date. SFAS No. 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007 and will not be applied retrospectively to fiscal years beginning prior to the effective date. We continue to evaluate the provisions of SFAS No. 159 and have not yet determined if we will make any elections for fair value reporting of eligible items under such standard.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141 (R)). SFAS No. 141(R) replaces SFAS No. 141 *Business Combinations* (SFAS No. 141) and supersedes or amends other related authoritative literature although it retains the fundamental requirements in SFAS No. 141 that the acquisition method of accounting (which SFAS No. 141 called the *purchase method*) be used for all business combinations and for an acquirer to be identified for each business combination. SFAS No. 141(R) also establishes principles and requirements for how the acquirer: a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141 (R) will apply prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. SFAS No. 141(R) also requires the acquirer to expense costs relating to any acquisitions that close after December 31, 2008.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51* (SFAS No. 160). SFAS No. 160 amends ARB 51 to establish accounting and reporting standards for the noncontrolling (minority) interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. In addition, it also changes the way the consolidated income statement is presented by requiring consolidated net income to include amounts attributable to both the parent and the noncontrolling interest with separate disclosure of each component on the face of the consolidated income statement. It does not, however, impact the calculation of earnings per share as such calculation will continue to be based on amounts attributable to the parent. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, and shall be applied prospectively as of the beginning of the fiscal year in which it is initially applied except that the presentation and disclosure requirements shall be applied retrospectively for all periods presented. The Company has not yet determined the impact that SFAS No. 160 will have on its consolidated financial statements.

4. FORMATION OF LAM

On January 1, 2003, in connection with the formation of the Company s LAM subsidiary, certain members of the Company (the managing directors of LAM) who provide services to LAM exchanged their members equity in the Company in the amount of $27,483 for membership interests in LAM of a like amount. As a result, these managing directors ceased being members of the Company and became exclusively members of LAM. Following the formation of LAM, the Company continues to control, and thereby consolidates, the operations of LAM with the membership interest held by the LAM managing directors included in minority interest on its consolidated statement of financial condition.

Pursuant to the formation of LAM, the LAM managing directors also were granted equity units in LAM. In addition, certain other key LAM employees were granted equity units in LAM. The LAM equity units entitle holders to payments only in connection with selected fundamental transactions affecting the Company or LAM,

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including a dissolution or sale of all or substantially all of the assets of the Company or LAM, a merger of or sale of all of the interests in LAM whereby the Company ceases to own a majority of, or have the right to appoint a majority of the board of directors of, LAM, or a non-ordinary course sale of assets by LAM that exceeds $50,000 in value. As a general matter, in connection with a fundamental transaction that triggers the LAM equity units, the holders of the LAM equity units, as of December 31, 2007, would be entitled in the aggregate to approximately 23% of the net proceeds or imputed valuation of LAM in such a transaction after deductions for payment of creditors of LAM and the return of LAM capital, with the remainder of approximately 77% being retained by Lazard Group. The LAM equity units are not entitled to share in the operating results of LAM. A separate class of interests in LAM, which we refer to as LAM profit units, is entitled to the ordinary profit and losses of LAM, all of which is owned by the Company. Accordingly, in the absence of a fundamental transaction that triggers the LAM equity units, all of LAM s net income is allocable to the Company. The equity units granted to LAM managing directors are a part of the LAM managing directors membership interest in LAM, and, therefore, all transactions related to the equity units are treated as equity transactions among members. The equity units granted to LAM employees are considered to be compensation for financial accounting purposes. As a fundamental transaction has not yet been considered probable of occurrence, no compensation cost has been recognized to date. The Company has no current intention to cause or otherwise trigger a fundamental transaction that would give rise to payment obligations to the holders of interests in LAM.

Commencing in 2003 and through May 10, 2005, payments for services rendered by LAM managing directors and other key LAM employees were accounted for as minority interest in net income on the consolidated statements of income. Commencing with the equity public offering on May 10, 2005, all payments for services rendered by all of LAM s employees and managing directors are included in compensation and benefits expense on the consolidated statements of income.

The board of directors of LAM, a majority of which are appointed by the Company, may, in its discretion, grant LAM equity interests that include profit rights to managing directors of, and other persons providing services to, LAM, as a portion of their ongoing compensation. If granted, these equity interests will be subject to specified vesting conditions. No such LAM equity interests have been granted as of December 31, 2007 nor is there any present intention to do so.

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5. INVESTMENTS AT FAIR VALUE

The Company s investments, which are stated at fair value, consist of the following at December 31, 2007 and 2006:

	December 31, 2007	2006
Debt:		
Bonds - Corporate	$534,825	$527,421
Non-U.S. Government and agency securities	50,608	28,729
	585,433	556,150
Equities	333,796	27,493
Other:		
Interest in LAM alternative asset management funds:		
General Partnership interests owned by Lazard	43,313	10,140
Minority interest	51,493	47,152
Private equity investments	74,051	35,629
Equity method investments	755	1,828
	169,612	94,749
Total investments, at fair value	$1,088,841	$678,392

Debt securities are typically held long-term, as part of LFB s asset-liability management program. They are primarily accounted for as either trading or available-for-sale securities under SFAS No. 115.

The fair value and amortized cost basis pertaining to debt securities classified as available-for-sale at December 31, 2007, by maturity date, are as follows:

	Fair Value	Cost Basis
Within one year	$	$
After 1 year through 5 years	50,619	51,072
After 5 years through ten years	21,734	22,206

After ten years		
	$72,353	$73,278

Equities principally represent the Company s investments in marketable equity securities either held directly or indirectly through asset management funds. Equities are either designated as trading securities under SFAS No. 115 or accounted for pursuant to broker-dealer accounting guidelines, depending upon the entity in which such equities are held.

Interests in LAM alternative asset management funds principally represent general partnership interests in LAM-managed hedge funds. The fair value of such interests reflects the pro rata value of the ownership of the underlying securities in the funds, the fair market value of which is determined through quoted market values of the underlying securities as provided by external pricing sources.

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Minority interests in LAM alternative asset management funds represent general partnership interests held directly by certain of our LAM managing directors or employees of the Company but controlled and consolidated by Lazard. The associated minority interest amounting to $51,493 and $47,152 at December 31, 2007 and 2006, respectively, is included in minority interest on the consolidated statements of financial condition (see Note 6 of Notes to Consolidated Financial Statements).

Private equity investments are primarily comprised of investments in private equity funds and direct private equity interests that are valued, in the absence of observable market prices, initially at cost, which is subsequently adjusted for additional capital raising transactions such as the issuance of new member interests or through a sale of existing equity to a third party or other events that are indicative of fair value. In the absence of third party transactions, the carrying value of such investments may be adjusted if it s determined that the expected realizable value of the investment differs from the carrying value. In reaching that determination, consideration is given to many factors including, but not limited to, the operating cash flows and financial performance of the investee, trends within sectors and/or regions, underlying business models, expected exit timing and strategy, and any specific rights or terms associated with the investment, such as conversion features, liquidation preferences or restrictions. With respect to the majority of private equity investments, we rely on the third party fund managers for estimates of such fair values.

The Company recognized gross investment gains and losses for the years ended December 31, 2007 and 2006 in revenue other on the respective consolidated statements of income. The Company recognized gross investment gains and losses for the year ended December 31, 2005, in revenue other with respect to continuing operations and loss from discontinued operations with respect to discontinued operations on the consolidated statement of income. Such amounts were as follows:

	Year Ended December 31,		
	2007	2006	2005
Gross investment gains	$63,721	$30,747	$26,721
Gross investment losses	$47,501	$4,767	$16,489

The table above includes gross unrealized investment gains and losses pertaining to trading securities under SFAS No. 115 as follows:

	Year Ended December 31,		
	2007	2006	2005
Gross unrealized investment gains	$8,610	$1,212	$1,085
Gross unrealized investment losses	$24,186	$902	$26

In addition, the Company recorded $1,022 of gross unrealized investment losses (pre-tax) in accumulated other comprehensive income in 2007 pertaining to debt securities held at LFB that are designated as available-for-sale under SFAS No. 115. There were no gross unrealized investment gains recorded in accumulated other comprehensive income in 2007 and there were no gross unrealized investment gains or losses recorded in accumulated other comprehensive income in 2006 and 2005.

6. MINORITY INTEREST

Commencing May 10, 2005, the Company records a charge to minority interest in net income relating to LAZ-MD Holdings ownership interest in Lazard Group (which approximated 51.7%, 52.1% and 62.4% at December 31, 2007, 2006 and 2005, respectively). For the reasons stated above, as well as with respect to payment for services to managing directors of LAM as described below, amounts recorded as minority interest in net income for the period prior to May 10, 2005 are not comparable to amounts recorded as minority interest in net income for periods commencing May 10, 2005.

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The following table summarizes the changes in ownership interests in Lazard Group held by Lazard Ltd and LAZ-MD Holdings since the equity public offering in May, 2005:

	Lazard Ltd		LAZ-MD Holdings		Total Lazard Group Common Membership Interests
	Common Membership Interests	% Ownership	Common Membership Interests	% Ownership	
Activity May 10, 2005 to December 31, 2005:					
May 10, 2005 Ownership of Lazard Group common membership interests concurrent with equity public offering	37,500,000	37.5%	62,500,000	62.5%	100,000,000
Repurchase of common membership interests from LAZ-MD Holdings			(381,251)		(381,251)
Balance, December 31, 2005	37,500,000	37.6%	62,118,749	62.4%	99,618,749
Activity January 1, 2006 to December 31, 2006:					
Conversion of deferred stock units to Class A common stock	3,668				3,668
Forfeitures			(20,301)		(20,301)
Primary Offering	8,050,400				8,050,400
Secondary Offering	6,000,000		(6,000,000)		
Balance, December 31, 2006	51,554,068	47.9%	56,098,448	52.1%	107,652,516
Activity January 1, 2007 to December 31, 2007:					
Repurchase of common membership interests from LAZ-MD Holdings			(583,899)		(583,899)
Exchanges of membership interests for Class A common stock	191,757		(191,757)		
Balance, December 31, 2007	51,745,825	48.3%	55,322,792	51.7%	107,068,617

The Company classifies LAZ-MD Holdings ownership of Lazard Group s common membership interests as a reduction of the Company s additional paid-in capital rather than as minority interest , since the balance of such minority interest as of December 31, 2007 and 2006 of $14,120 and $127,863, respectively, is negative. See Note 14 of Notes to Consolidated Financial Statements with respect to distributions paid to LAZ-MD Holdings.

Minority interest also includes minority interests in various LAM-related general partnership interests that the Company controls but does not wholly own, minority interests in LAM and the Company s business in Italy which was owned 40% by Banca Intesa S.p.A. (Intesa) through May 15, 2006 (see Note 8 of Notes to Consolidated Financial Statements). As a result of consolidating the various LAM-related general partnership interests, the Company recognizes the portion of income not associated with the Company s ownership as minority interest in net income .

Also, as described in Note 4 of Notes to Consolidated Financial Statements, payments for services rendered by managing directors of LAM (and employee members of LAM) had, prior to May 10, 2005, been accounted for as minority interest in net income and, since that date, such payments have been included in compensation and benefits expense on the consolidated statements of income.

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The tables below summarize our minority interest in net income for the years ended December 31, 2007, 2006 and 2005 and minority interest as of December 31, 2007 and 2006 in Lazard s consolidated financial statements:

	Minority Interest In Net Income Year Ended December 31,		
	2007	2006	2005
LAZ-MD Holdings	$177,494	$160,289	$103,612
LAM Members			9,447
LAM General Partnerships	5,135	5,114	2,784
Italian Strategic Alliance			6,460
Other	8	9	12
Total	$182,637	$165,412	$122,315

	Minority Interest As Of December 31,	
	2007	2006
LAM Members	$253	$ 7,446
LAM General Partnerships	51,493	47,152
Other	1,029	899
Total	$52,775	$55,497

7. BUSINESS ACQUISITIONS AND JOINT VENTURE INVESTMENT

On August 13, 2007, Lazard Group acquired all of the outstanding ownership interests of Goldsmith, Agio, Helms & Lynner, LLC (GAHL), a Minneapolis-based investment bank specializing in financial advisory services to mid-sized private companies. On July 31, 2007, Lazard Ltd acquired all of the outstanding shares of Carnegie, Wylie & Company (Holdings) PTY LTD (CWC), an Australia-based financial advisory firm and concurrently sold such investment to Lazard Group. These purchases were effected though an exchange of a combination of cash, Class A common stock, and by Lazard Ltd issuing 36,607 shares of non-participating convertible Series A preferred stock and 277 shares of non-participating convertible Series B preferred stock (the Series A preferred stock and Series B preferred stock , respectively, which are each convertible into Class A common stock). The total number of Class A common shares to be issued in connection with the acquisitions will depend, in part, upon the future performance of each of GAHL and CWC. See Note 14 of Notes to the Consolidated Financial Statements for additional information regarding the Series A preferred stock and Series B preferred stock.

The aggregate non-contingent consideration, as of December 31, 2007, relating to the GAHL and the CWC acquisitions (before transaction costs) consists of approximately $154,100 of cash and approximately $52,800 of stock. At December 31, 2007, 815,558 shares of Class A common stock are issuable on a non-contingent basis. Additionally, at December 31, 2007, 12,155 shares of Series A preferred stock and 277 shares of Series B preferred stock are convertible into Class A common shares on a non-contingent basis, with the number of Class A common shares dependent, in part, upon future prices of the Class A common stock. At December 31, 2007, 1,329,987 shares of Class A common stock were contingently issuable and 24,452 shares of Series A preferred stock were contingently convertible into shares of Class A common stock, dependent upon the future performance of GAHL and CWC.

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The Class A common stock for the GAHL and CWC acquisitions is issuable over multi-year periods.

We account for business acquisitions using the purchase method of accounting, whereby the results of the acquired businesses are included in our consolidated financial results from the effective date of the respective acquisitions. As a result of the GAHL and CWC acquisitions, we recorded net tangible assets, identifiable intangible assets and goodwill of approximately $22,500, $31,000 and $159,300, respectively. Goodwill pertaining to these acquisitions is deductible for income tax purposes. As of December 31, 2007, the purchase price allocation is preliminary, and is therefore subject to final adjustment. A substantial portion of any contingent consideration will represent goodwill, and will be recognized in the period the contingencies have been satisfied. The operating results related to the acquisitions described above are primarily included in the Company s Financial Advisory segment. See Note 10 of Notes to Consolidated Financial Statements for additional information relating to goodwill and other intangible assets.

Subsequent to the acquisitions of GAHL and CWC, we operate these businesses under the names Lazard Middle Market and Lazard Carnegie Wylie, respectively.

On January 31, 2008, Lazard Group acquired a 50% interest in Merchant Bankers Asociados (MBA), an Argentina-based financial advisory services firm with offices across Central and South America and the parent company of MBA Banco de Inversiones. We will account for the investment in MBA using the equity method of accounting.

8. *TERMINATION OF STRATEGIC ALLIANCE IN ITALY*

On May 15, 2006, Lazard Group completed the termination of its strategic alliance with Intesa, which conducted selected Italian investment banking business solely through Lazard & Co. S.r.l. (Lazard Italy), an indirect subsidiary of Lazard Group. In accordance with the provisions of the Termination Agreement, dated as of March 31, 2006, by and among Intesa, Lazard Group and Lazard Italy, the following adjustments were made to the terms of Intesa s investment in Lazard Italy and Lazard Funding Limited LLC (Lazard Funding), a wholly-owned subsidiary of Lazard Group:

> The $150,000 Subordinated Convertible Note Intesa purchased in March 2003 from Lazard Funding was amended and restated, among other things, to provide for its convertibility into a maximum of 2,631,570 shares of Class A common stock at an effective conversion price of $57 per share. The amended $150,000 subordinated convertible note (the Amended $150,000 Subordinated Convertible Note) matures on September 30, 2016 and has a fixed interest rate of 3.25% per annum. One-third in principal amount will generally be convertible after July 1, 2008, an additional one-third after July 1, 2009 and the last one-third after July 1, 2010, and no principal amount will be convertible after June 30, 2011.

Intesa s 40% equity interest in Lazard Italy and a $50,000 subordinated promissory note of Lazard Italy held by Intesa were acquired by Lazard Group in exchange for the issuance by Lazard Group to Intesa of a $96,000 senior promissory note (the $96,000 Senior Promissory Note) and a $50,000 subordinated promissory note (the $50,000 Subordinated Promissory Note), respectively. The $96,000 Senior Promissory Note and the $50,000 Subordinated Promissory Note had fixed interest rates of 4.25% and 4.6% per annum, respectively, and each note was scheduled to mature on February 28, 2008. On May 15, 2006, Intesa sold and assigned all its rights and interests relating to both notes to a commercial bank.

Lazard Group paid Intesa an amount equal to a 3% annualized return on Intesa s ownership interest from April 1, 2006 through the May 15, 2006 termination closing and the accrued and unpaid interest on the $50,000 Subordinated Promissory Note as of the termination closing.

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As a result of the termination of the strategic alliance with Intesa and Lazard Group s repurchase of Intesa s ownership interest, the Company realized a gain of $13,695, which is included in revenue other on the consolidated statement of income for the year ended December 31, 2006 and, after transaction and other costs, resulted in an increase in operating income of $5,274.

On June 29, 2007, Lazard Group redeemed both the $96,000 Senior Promissory Note and the $50,000 Subordinated Promissory Note.

9. LAZARD ALTERNATIVE INVESTMENTS

Lazard Group and LFCM Holdings entered into the business alliance agreement that, among other things, granted Lazard Group the option to acquire the North American and European fund management activities of Lazard Alternative Investments Holdings LLC (LAI), the subsidiary of LFCM Holdings that owns and operates LFCM Holdings alternative investment (including private equity) activities. This option is currently exercisable at any time prior to May 10, 2014, for a total price of $8,500. The option may be exercised by Lazard Group in two parts, consisting of a $6,500 option to purchase LAI s North American activities and a $2,000 option to purchase LAI s European activities. The total option price referred to above reflects a reduction of $1,500 due to the payment of a like amount in February, 2008 to LFCM Holdings in connection with the initial public offering of Sapphire Industrials Corp. (Sapphire) whereby LFCM Holdings agreed not to assert certain claims that it may believe that it had under the business alliance agreement (see Note 13 of Notes to Consolidated Financial Statements for additional information relating to LFCM Holdings and Sapphire). LAI s fund management activities consist of the fund management and general partner entities, together with Lazard Group s direct investments in related funds that were transferred to LFCM Holdings pursuant to or in anticipation of the separation.

The business alliance agreement provides Lazard Group with certain governance rights with respect to LAI and provides for support by LFCM Holdings of the business of LAI. With respect to historical investments and funds transferred to LFCM Holdings as part of the separation, profits realized prior to the option exercise are for the account of LFCM Holdings, whereas profits realized after the exercise of the option are for the account of Lazard Group. The master separation and business alliance agreements provide for Lazard Group (i) to invest capital in future funds to be managed by LFCM Holdings subsidiaries and (ii) to receive incentive fee payments from such funds, as well as profits related to such investments, if any, irrespective of whether it exercises its purchase option.

In February 2005, Lazard Group formed a private equity fund, Corporate Partners II Limited (Corporate Partners), with $1,000,000 of institutional capital commitments and a $100,000 capital commitment from Lazard Group, the principal portion of which may require funding at any time through 2010. As of December 31, 2007, Lazard Group contributed $23,823 of its capital commitment, which is recorded as a private equity investment within investments other on the consolidated statement of financial condition. Pursuant to the master separation and business alliance agreements entered into between Lazard Group and LFCM Holdings, this fund is managed by a subsidiary of LFCM Holdings, and Lazard Group retained a capital commitment to the fund and is entitled to receive the carried interest distributions made by the fund (other than the carried interest distributions made to investment professionals who manage the fund).

In July 2005, LFCM Holdings formed a private equity fund, Lazard Senior Housing Partners LP, which closed with capital commitments of approximately $201,000 from institutional investors, including $10,000 from the Company, the principal portion of which will require funding at any time through 2008. In connection with such capital commitment, Lazard funded $8,294 as of December 31, 2007, which is recorded as a private equity investment within investments other on the consolidated statement of financial condition.

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Pursuant to the business alliance agreement, Lazard Group has a limited partner capital commitment to Lazard Technology Partners III, a planned investment fund to be managed and controlled by LFCM Holdings, which commitment is contingent upon the formation of such investment fund. As of December 31, 2007 this capital commitment was 10% of the total fund capital commitments, with a minimum and maximum commitment by Lazard Group of $15,000 and $20,000, respectively. As of December 31, 2007, this investment fund has not been formed and Lazard Group has not made any payment toward such contingent capital commitment.

10. GOODWILL AND OTHER INTANGIBLE ASSETS

The components of goodwill and other intangible assets at December 31, 2007 and 2006, which primarily pertain to the Financial Advisory segment, are described below.

	December 31,	
	2007	2006
Goodwill	$ 178,446	$ 16,945
Other intangible assets (net of accumulated amortization)	9,463	
	$ 187,909	$ 16,945

Changes in the carrying amount of goodwill for the years ended December 31, 2007, 2006 and 2005 are as follows:

	Year Ended December 31,		
	2007	2006	2005
Balance, January 1	$ 16,945	$ 15,996	$ 17,205
Business acquisitions, including purchase accounting adjustments	159,343		
Foreign currency translation adjustments	2,158	949	(1,209)
Balance, December 31	$ 178,446	$ 16,945	$ 15,996

The Company performs a goodwill impairment test annually or more frequently if circumstances indicate that impairment may have occurred. The Company has selected December 31 as the date to perform its annual impairment test. Pursuant to the Company s goodwill impairment test for the years ended December 31, 2007, 2006 and 2005, the Company compared the fair value of each of its applicable entities to their corresponding carrying amounts, including goodwill, and determined that no impairment existed.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(dollars in thousands, except for per share data, unless otherwise noted)

The gross cost and accumulated amortization, by major intangible asset category, all of which relate to the year ended December 31, 2007, is as follows:

	At December 31, 2007		
	Gross Cost	Accumulated Amortization	Net Carrying Amount
Success fee contracts	$ 23,969	$ 20,783	$ 3,186
Management fees, customer relationships and non-compete agreements	7,017	740	6,277
	$ 30,986	$ 21,523	$ 9,463

Amortization expense of intangible assets for the year ended December 31, 2007 was $21,523. Estimated future amortization expense is as follows:

Year Ending December 31,	Amortization Expense
2008	$ 4,588
2009	1,272
2010	1,127
2011	903
2012	511
Thereafter	1,062
Total amortization expense	$ 9,463

11. OTHER ASSETS AND OTHER LIABILITIES

The following table sets forth the Company s other assets, by type, as of December 31, 2007 and 2006:

	December 31, 2007	December 31, 2006
Current and deferred income taxes receivable (net of valuation allowance) and other taxes	$ 85,032	$ 46,784
Accruals and prepayments	65,778	38,751

Deferred debt issuance costs	12,676	8,078
Other	37,061	31,003
Total	$ 200,547	$ 124,616

The following table sets forth the Company s other liabilities, by type, as of December 31, 2007 and 2006:

	December 31,	
	2007	**2006**
Accrued expenses	$ 146,655	$ 137,083
Current and deferred income taxes and other taxes	153,562	91,404
Employee benefit-related liabilities	75,563	72,373
Unclaimed funds at LFB	57,193	51,204
Abandoned leased space	27,805	31,910
Other	108,401	58,056
Total	$ 569,179	$ 442,030

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12. SENIOR AND SUBORDINATED DEBT

Senior Debt Senior debt is comprised of the following as of December 31, 2007 and 2006:

	Principal Amount	Maturity Date	Annual Interest Rate	Outstanding As Of December 31, 2007	2006
Lazard Group 7.125% Senior Notes(a)	$ 550,000	2015	7.125%	$ 550,000	$ 550,000
Lazard Group 6.12% Senior Notes(b)	437,500	2008-2035	6.12%	437,500	437,500
Lazard Group 6.85% Senior Notes(c)	600,000	2017	6.85%	600,000	
Lazard Group Senior Promissory Note(d)	96,000		4.25%		96,000
Lazard Group Credit Facility(e)	150,000	2010	5.75%		
Total				$ 1,587,500	$ 1,083,500

(a) Concurrent with the equity public offering, Lazard Group issued, in a private placement, $550,000 aggregate principal amount of 7.125% senior notes due May 15, 2015 (the Lazard Group 7.125% Senior Notes). The Lazard Group 7.125% Senior Notes were issued net of original issue discount of $435. On October 31, 2005 Lazard Group closed an exchange offer to exchange an aggregate principal amount of up to $550,000 of the privately-placed 7.125% senior notes for an equal aggregate principal amount of 7.125% senior notes that were registered under the Securities Exchange Act of 1933, as amended (the 7.125% exchange notes). Pursuant to the exchange offer, Lazard Group exchanged $546,000 in aggregate principal amount of its privately-placed 7.125% senior notes (approximately 99.3% of the aggregate principal amount outstanding) for $546,000 in aggregate principal amount of its 7.125% exchange notes. The 7.125% exchange notes are substantially identical to the privately-placed 7.125% senior notes, except that the transfer restrictions applicable to the privately-placed 7.125% senior notes do not apply to the 7.125% exchange notes.

In connection with the issuance of the Lazard Group 7.125% Senior Notes, on April 1, 2005, Lazard Group entered into an interest rate forward agreement with a bank for a notional amount of $650,000 to ensure that the base rate (excluding market-driven credit spreads) on the Lazard Group 7.125% Senior Notes would be no greater than 4.5%. Lazard Group settled the interest rate forward agreement with the bank as of May 9, 2005, which required a payment by Lazard Group of $13,004. Of this amount, in accordance with SFAS No. 133, $11,003 was deemed to be the effective portion of the hedge and has been recorded within accumulated other comprehensive income, net of tax and is being amortized as a charge to interest expense over the ten year term of the Lazard Group 7.125% Senior Notes.

(b) Concurrently with the equity public offering, Lazard Ltd consummated the ESU offering in an aggregate offering amount of $287,500, which generated net proceeds of $276,535. Each ESU was issued for $25 and consists of (i) a purchase contract which obligates holders to purchase, and Lazard Ltd to sell, on May 15, 2008, a number of newly-issued shares of Class A common stock equal to a settlement rate based on the trading price of its Class A common stock during a period preceding that date and (ii) a 1/40, or 2.5%, ownership interest in a 6.12% senior note due 2035 of Lazard Group Finance, with a principal amount of $1 (the Lazard Group 6.12% Senior Notes). Pursuant to a December 19, 2005 merger of Lazard Group Finance into Lazard Group, Lazard Group continued as the surviving company. In addition, Lazard Group Finance ceased to be the managing member of Lazard Group, and the co-managing members of Lazard Group Finance, which were two indirect wholly- owned subsidiaries of Lazard Ltd, became the co-managing members of Lazard Group. As a result of the merger, Lazard Group assumed the obligations, including the remarketing obligations, with respect to $437,500 aggregate principal amount of the Lazard Group 6.12% Senior Notes (including $150,000 aggregate principal amount issued to Natixis as described in Note 2 above), which notes form a part of the 6.625% ESUs previously issued by Lazard Ltd.

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In connection with the quarterly contract adjustment payments made under the purchase contracts referred to above, the Company recorded a liability as of May 10, 2005 of $6,013 for the present value of such payments (including the similar contract adjustment payments related to Natixis as described in Note 2 above), with a corresponding charge to additional paid-in-capital. The liability will accrete over the three year period ending May 15, 2008, with a corresponding charge to interest expense.

Lazard Ltd began making quarterly contract adjustment payments on the purchase contracts at an annual rate of 0.505% on August 15, 2005. Lazard Ltd has the right to defer these quarterly contract adjustment payments (however, no such deferrals have occurred as of December 31, 2007). In general, during any period in which it defers such payments, Lazard Ltd cannot declare or pay dividends on, make distributions with respect to, or redeem, purchase or acquire, or make a liquidation payment with respect to, any of its capital stock.

The Lazard Group 6.12% Senior Notes, will mature (a) in the event of a successful remarketing, on any date no earlier than May 15, 2010 and no later than May 15, 2035, as we may elect, (b) in the event of a failed remarketing, on May 15, 2008 (the stock purchase date) and (c) otherwise on May 15, 2035. The Lazard Group 6.12% Senior Notes were pledged by the holders to secure the purchase contract obligations described above.

Prior to the issuance of the Class A common stock upon settlement of the purchase contracts, the ESUs are reflected in Lazard Ltd s diluted net income per share using the treasury stock method. See Note 15 of Notes to Consolidated Financial Statements for additional information regarding net income per share of Class A common stock.

(c) On June 21, 2007, Lazard Group completed a private placement of $600,000 aggregate principal amount of 6.85% senior notes due June 15, 2017. On August 16, 2007, Lazard Group closed an exchange offer to exchange an aggregate principal amount of up to $600,000 of the privately-placed 6.85% senior notes for an equal aggregate principal amount of 6.85% senior notes that were registered under the Securities Act of 1933, as amended (the 6.85% exchange notes). Pursuant to the exchange offer, Lazard Group exchanged $599,300 in aggregate principal amount of its privately-placed 6.85% senior notes (approximately 99.9% of the aggregate principal amount outstanding) for $599,300 in aggregate principal amount of its 6.85% exchange notes. The 6.85% exchange notes are substantially identical to the privately-placed 6.85% senior notes, except that the transfer restrictions applicable to the privately-placed 6.85% senior notes do not apply to the 6.85% exchange notes.

(d) Redeemed in June, 2007 (see Note 8 of Notes to Consolidated Financial Statements).

(e) Concurrent with the equity public offering, Lazard Group entered into a five year, $125,000 senior revolving credit facility (the Credit Facility) with a group of lenders. On May 17, 2006, the Credit Facility was amended to provide for an increase in the aggregate commitments from $125,000 to $150,000. Interest rates under the Credit Facility vary and are based on either a Federal Funds rate or a Eurodollar rate, in each case plus an applicable margin. As of December 31, 2007, the annual interest rate for a loan accruing interest (based on the Federal Funds overnight rate), including the applicable margin, was 5.75%. At December 31, 2007 and 2006 no amounts were outstanding under the Lazard Group Credit Facility.

Subordinated Debt Subordinated debt at December 31, 2007 and 2006 amounted to $150,000 and $200,000, respectively, and consists of amounts associated with the strategic alliance transaction in Italy and the termination thereof (see Note 8 of Notes to Consolidated Financial Statements).

Debt maturities relating to senior and subordinated borrowings outstanding at December 31, 2007 for each of the five years in the period ending December 31, 2012 and thereafter are set forth in the table below. For purposes of this table it was assumed that the $437,500 aggregate principal amount of Lazard Group 6.12% Senior Notes issued in connection with the issuance of the ESUs will mature in 2008, the earliest possible maturity. In addition, it

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was assumed that the $150,000 Subordinated Convertible Note issued in connection with the termination of our strategic alliance with Intesa remains outstanding in connection with its stated terms (see Note 8 of Notes to Consolidated Financial Statements).

Year Ending December 31,	Senior Debt	Subordinated Debt	Total
2008	$ 437,500	$	$ 437,500
2009-2012			
Thereafter	1,150,000	150,000	1,300,000
Total	$ 1,587,500	$ 150,000	$ 1,737,500

The debt maturities reflected above exclude any recognition of the May, 2008 settlement of the purchase contracts component of the ESUs which require the holders to purchase an aggregate of $437,500 of the Company s Class A common stock. The holders obligation is collateralized by the entire $437,500 principal amount of Lazard Group 6.12% Notes outstanding.

The Credit Facility contains affirmative and negative covenants. Such covenants include, among other things, limitations on the ability of Lazard Group to incur debt, grant liens, pay dividends, enter into mergers or to sell all or substantially all of its assets, as well as financial maintenance covenants. In addition, the indenture and supplemental indentures relating to Lazard Group s senior notes contain certain covenants, events of default and other customary provisions, including a customary make-whole provision in the event of early redemption.

As of December 31, 2007, the Company is in compliance with all obligations under its various senior and subordinated borrowing arrangements. All of the Company s senior and subordinated debt obligations are unsecured.

As of December 31, 2007, the Company had $231,095 in unused lines of credit available to it, including $60,593 of unused lines of credit available to LFB.

13. COMMITMENTS AND CONTINGENCIES

Leases The Company leases office space and equipment under non-cancelable lease agreements, which expire on various dates through 2022.

Occupancy lease agreements, in addition to base rentals, generally are subject to escalation provisions based on certain costs incurred by the landlord. Included in occupancy and equipment, technology and information services and, with respect to the separated businesses, loss from discontinued operations on the consolidated statements of income for the years ended December 31, 2007, 2006 and 2005 is $73,310, $56,540 and $55,432, respectively, of aggregate rental expense relating to operating leases. The Company subleases office space under agreements, which expire on various dates through 2022. Sublease income from such agreements was $12,511, $10,480 and $4,505 for the years ended December 31, 2007, 2006 and 2005, respectively.

Capital lease obligations recorded under sale/leaseback transactions are payable through 2017 at a weighted average interest rate of approximately 6.1%. Assets recorded under capital leases have a net carrying value of approximately $29,741 and $29,095 at December 31, 2007 and 2006, respectively. The carrying value of capital lease obligations approximates fair value. During 2005, the Company s principal capital lease in Paris matured and ownership of the assets reverted to the Company.

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At December 31, 2007, minimum rental commitments under non-cancelable leases, net of sublease income, are approximately as follows:

	Minimum Rental Commitments	
Year Ending December 31	**Capital**	**Operating**
2008	$ 3,282	$ 71,227
2009	3,178	60,266
2010	3,116	52,336
2011	3,110	49,305
2012	3,108	38,635
Thereafter	21,398	216,295
Total minimum lease payments	37,192	488,064
Less amount representing interest	10,070	
Present value of capital lease commitments	$ 27,122	
Sublease proceeds		68,391
Net lease payments		$ 419,673

During the year ended December 31, 2005, the Company recorded exit costs of approximately $7,700 (net of $23,240 representing the present value of the $25,000 indemnity from LFCM Holdings as described below) relating to abandoned leased facilities in the U.K. of which $6,300 and $1,400 is included in loss from discontinued operations and occupancy and equipment , respectively, on the consolidated statement of income. These costs represent write-offs of leasehold improvements as well as a provision for lease obligations. In accordance with SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities,* the provision recorded for lease obligations on the cease-use date was determined based on the fair value of the liability for costs that will continue to be incurred for the remaining term of the lease without economic benefit to the Company, based on the remaining lease rentals, reduced by estimated sublease rentals.

With respect to abandoned leased facilities in the U.K., at December 31, 2007 and 2006, the Company has recognized liabilities of $26,991 and $31,910, respectively, exclusive of the indemnification described below, which are included in other liabilities on the consolidated statements of financial condition. Payments toward the liabilities continue through the remaining term of the leases. Such liabilities are based on the discounted future commitment, net of expected sublease income.

Under the master separation agreement and a related lease indemnity agreement, dated as of May 10, 2005, LFCM Holdings is obligated to indemnify Lazard Group for certain liabilities relating to abandoned leased space in the U.K. During the fourth quarter of 2005, Lazard Group entered into an agreement with LFCM Holdings which provided for LFCM Holdings to pay to Lazard Group $25,000 in full satisfaction of its indemnification obligations with respect to the abandoned leased space. The net present value of the balance due at December 31, 2007 and 2006 of $7,037 and $9,989, respectively, after giving effect to payments received through the respective dates, is included in receivables - related parties on the consolidated statements of financial condition (see Note 18 of Notes to Consolidated Financial Statements). The balance at December 31, 2007 is due based on a schedule of periodic payments through May 10, 2010.

Lending Commitments In the normal course of business, LFB enters into commitments to extend credit, predominately at variable interest rates. The commitments have an expiration date and, once drawn upon, may require the counterparty to post collateral depending on creditworthiness. Total outstanding commitments at December 31, 2007 were $4,154. This amount may not represent future cash requirements as commitments may expire without being drawn upon.

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Other Commitments At December 31, 2007, the Company had commitments for capital contributions of $4,084 to Company-sponsored private equity investment funds (including $3,490 in connection with the Company s compensation plans), which are contingent upon certain events and have no definitive final payment dates. In addition, the Company had agreements (which are cancelable under certain circumstances) relating to future minimum payments to certain senior advisors, managing directors and employees. These future minimum payments amount to $50,330, $14,545, $9,535, $7,911, $771 and $2,450 for the years ending December 31, 2008, 2009, 2010, 2011, 2012 and thereafter, respectively.

During 2007, the Company made a capital commitment through 2017 of approximately $44,200 to a mezzanine fund. As of December 31, 2007, the Company had invested approximately $22,100 relating to such commitment, which is recorded as a private equity investment within investments other on the consolidated statement of financial condition (see Note 5 of Notes to Consolidated Financial Statements).

See Notes 9 and 16 of Notes to Consolidated Financial Statements for information regarding capital commitments in connection with funds managed by LAI and obligations to fund our pension plans in the U.K., respectively.

In the normal course of business, LFB provides indemnifications to third parties to protect them in the event of non-performance by its clients. At December 31, 2007, LFB had $18,073 of such indemnifications and held $15,091 of collateral/counter-guarantees to secure these commitments. The Company believes the likelihood of loss with respect to these indemnities is remote. Accordingly, no liability is recorded in the consolidated statement of financial condition.

On January 24, 2008, Sapphire, a newly-organized special purpose acquisition company formed by Lazard Funding, completed an initial public offering which, prior to offering costs, raised $800,000 through the sale of 80,000,000 units at an offering price of $10.00 per unit (the Sapphire IPO). Each unit consists of one share of Sapphire common stock and one warrant, with such warrant entitling the holder to purchase one share of Sapphire common stock for $7.00.

Sapphire was formed for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization or similar business combination with one or more operating businesses primarily with general industrial companies in North America (collectively referred to as the Initial Business Combination).

In connection with the formation of Sapphire, on October 2, 2007 Lazard Funding purchased from Sapphire 17,415,600 units (founders units) at a total cost of approximately $109. Each founders unit consists of one share of Sapphire common stock and one warrant, with such warrant entitling the holder to purchase one share of Sapphire common stock for $7.50. On January 24, 2008, in connection with the Sapphire IPO, Lazard Funding purchased (i) 5,000,000 units in the Sapphire IPO at a purchase price equal to the public offering price of $10.00 per unit (for an aggregate purchase price of $50,000), and (ii) an aggregate of 12,500,000 warrants from Sapphire at a price of $1.00 per warrant (for a total purchase price of $12,500). Furthermore, Lazard Funding entered into an agreement with the underwriter to purchase, subsequent to the Sapphire IPO and prior to the closing of the Initial Business Combination, up to an additional $37,500 of Sapphire common shares in open market purchases.

In connection with the Sapphire IPO, and pursuant to certain rights afforded LFCM Holdings under the business alliance agreement, Lazard Funding offered Corporate Partners the right, through the date of a public announcement of the Initial Business Combination, to purchase from Lazard Funding, at a cost of $10.00 per unit, up to 2,000,000 Sapphire units (for an aggregate purchase price of up to $20,000).

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The Company has various other contractual commitments arising in the ordinary course of business. In the opinion of management, the consummation of such commitments will not have a material adverse effect on the Company s consolidated financial position or results of operations.

Guarantees On March 12, 2007, Lazard entered into an agreement to guarantee to a foreign tax jurisdiction the deferred payment of certain income tax obligations and potential tax penalties of certain managing directors of Lazard Group, which, as of December 31, 2007, aggregate $24,549. These managing directors have pledged their interests in LAZ-MD Holdings (which are exchangeable into shares of Class A common stock) to collateralize such guarantee, with the value of such collateral exceeding the guarantee provided by Lazard.

Legal The Company s businesses, as well as the financial services industry generally, are subject to extensive regulation throughout the world. The Company is involved in a number of judicial, regulatory and arbitration proceedings and inquiries concerning matters arising in connection with the conduct of our businesses. The Company reviews such matters on a case by case basis and establishes any required reserves in accordance with SFAS No. 5, *Accounting For Contingencies*. Management believes, based on currently available information, that the results of such matters, in the aggregate, will not have a material adverse effect on its financial condition but might be material to its operating results or cash flows for any particular period, depending upon the operating results for such period.

In 2004, we received a request for information from the NASD as part of an industry investigation relating to gifts and gratuities, which was focused primarily on the Company s former Capital Markets business, which business was transferred to LFCM Holdings as a part of the separation. In addition, the Company received requests for information from the NASD, SEC and the U.S. Attorney s Office for the District of Massachusetts seeking information concerning gifts and entertainment involving an unaffiliated mutual fund company, which are also focused on that same business. In the course of an internal review of these matters, there were resignations or discipline of certain individuals associated with Lazard s former Capital Markets business. These investigations are continuing and the Company cannot predict their potential outcomes. Accordingly, the Company has not recorded an accrual for losses related to any such judicial, regulatory or arbitration proceedings.

14. MEMBERS EQUITY AND STOCKHOLDERS EQUITY (DEFICIENCY)

Pursuant to Lazard Group s operating agreement as in effect prior to the amended and restated Operating Agreement, Lazard Group allocates and distributes to its members a substantial portion of its distributable profits in three monthly installments, as soon as practicable after the end of each fiscal year. Such installment distributions usually begin in February. In addition, other periodic distributions to members included, as applicable, capital withdrawals, fixed return on members equity and income tax advances made on behalf of members.

In connection with the consummation of the equity public offering, during the period January 1 through May 9, 2005, Lazard Group s members equity was reduced by approximately $145,000 for the repurchase of working member interests prior to consummation of the equity public offering.

At December 31, 2007 and 2006, Lazard Group common membership interests held by subsidiaries of Lazard Ltd amounted to 48.3% and 47.9%, respectively, and the remaining 51.7% and 52.1%, respectively, were held by LAZ-MD Holdings. Pursuant to provisions of its Operating Agreement, Lazard Group distributions in respect of its common membership interests are allocated to the holders of such interests on a pro rata basis. Such

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distributions represent amounts necessary to fund (i) any dividends Lazard Ltd may declare on its Class A common stock and (ii) tax distributions in respect of income taxes that Lazard Ltd s subsidiaries and the members of LAZ-MD Holdings incur as a result of holding Lazard Group common membership interests. During the years ended December 31, 2007, 2006 and 2005, Lazard Group distributed $20,056, $22,357 and $8,821, respectively, to LAZ-MD Holdings and $18,308, $13,480 and $5,325, respectively, to the subsidiaries of Lazard Ltd, which latter amounts were used by Lazard Ltd to pay dividends to third party stockholders of its Class A common stock. In addition, during the years ended December 31, 2007, 2006 and 2005, Lazard Group made tax distributions of $109,908, $43,253 and $18,164, respectively, including $60,334, $26,968 and $11,327, respectively, paid to LAZ-MD Holdings and $49,574, $16,285 and $6,837, respectively, paid to subsidiaries of Lazard Ltd.

On January 29, 2008, the Board of Directors of Lazard Ltd declared a quarterly dividend of $0.10 per share on its Class A common stock, totaling $5,175, payable on February 29, 2008 to stockholders of record on February 8, 2008.

A description of the Equity Incentive Plan, and activity with respect thereto during the years ended December 31, 2007, 2006 and 2005 is presented below.

Shares Available Under the Equity Incentive Plan

The Equity Incentive Plan authorizes the issuance of up to 25,000,000 shares of Class A common stock pursuant to the grant or exercise of stock options, stock appreciation rights, restricted stock, stock units and other equity-based awards. Each stock unit granted under the Equity Incentive Plan represents a contingent right to receive one share of Class A common stock, at no cost to the recipient. The fair value of such stock unit awards is determined based on the closing market price of Lazard Ltd s Class A common stock at the date of grant.

Restricted Stock Unit Grants (RSUs)

RSUs require future service as a condition for the delivery of the underlying shares of Class A common stock and convert into Class A common stock on a one-for-one basis after the stipulated vesting periods. The fair value of the RSUs, net of an estimated forfeiture rate, is amortized over the vesting periods or requisite service periods as required under SFAS No. 123R, and, for purposes of calculating diluted net income per share, are included in the diluted weighted average shares of Class A common stock outstanding using the treasury stock method. Expense relating to RSUs is charged to compensation and benefits expense within the consolidated statements of income, and amounted to $104,765, $22,995 and $1,024 for the years ended December 31, 2007, 2006 and 2005, respectively. RSU s issued subsequent to December 31, 2005 generally include a dividend participation right that provides that during vesting periods each RSU is attributed additional RSUs equivalent to any ordinary quarterly dividends paid on Class A common stock during such period. During the years ended December 31, 2007 and 2006, such dividend participation rights required the issuance of 55,836 and 22,467 RSUs, respectively, and resulted in a decrease in retained earnings and a corresponding increase in additional paid-in-capital, net of actual forfeitures, of $2,570 and $883, respectively.

Deferred Stock Unit Grants (DSUs)

Non-executive members of the Board of Directors receive approximately 55% of their annual compensation for service on the Board of Directors and its committees in the form of DSUs, which amounted to 12,459, 12,320 and 9,968 DSUs granted during the years ended December 31, 2007, 2006 and 2005, respectively. Their remaining compensation is payable in cash. DSUs are convertible into Class A common stock at the time of

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cessation of service to the Board. The DSUs include a cash dividend participation right equivalent to any ordinary quarterly dividends paid on Class A common stock. DSU awards are expensed at their fair value on their date of grant, which, inclusive of amounts related to the Directors Fee Deferral Unit Plan described below, totaled $821, $549 and $253 during the years ended December 31, 2007, 2006 and 2005, respectively.

On May 9, 2006, the Board of Directors adopted the Directors Fee Deferral Unit Plan, which allows the Company s Non-Executive Directors to elect to receive additional DSUs pursuant to the Equity Incentive Plan in lieu of some or all of their cash fees. The number of DSUs that shall be granted to a Non-Executive Director pursuant to this election will equal the value of cash fees that the applicable Non-Executive Director has elected to forego pursuant to such election, divided by the market value of a share of Class A common stock on the date on which the foregone cash fees would otherwise have been paid. During the years ended December 31, 2007 and 2006, 3,161 and 1,070 DSUs, respectively, had been granted pursuant such Plan.

The following is a summary of activity relating to RSUs and DSUs during the three year period ended December 31, 2007:

	RSUs		DSUs	
	Units	Weighted Average Grant Date Fair Value	Units	Weighted Average Grant Date Fair Value
Balance, January 1, 2005				
Granted	1,045,733	$ 23.87	9,968	$25.33
Forfeited	(12,000)	$ 23.72		
Balance, December 31, 2005	1,033,733	$ 23.87	9,968	$25.33
Granted (including 22,467 RSUs relating to dividend participation)	3,133,712	$ 34.96	13,390	$41.02
Forfeited	(158,063)	$ 34.04		
Converted			(3,668)	$26.89
Balance, December 31, 2006	4,009,382	$ 32.13	19,690	$35.71
Granted (including 55,836 RSUs relating to dividend participation)	5,873,905	$ 49.28	15,620	$ 52.55
Forfeited	(294,145)	$ 40.36		
Converted	(81,207)	$ 47.15		
Balance, December 31, 2007	9,507,935	$ 42.35	35,310	$ 43.16

As of December 31, 2007, unrecognized RSU compensation expense, adjusted for estimated forfeitures, was approximately $225,352, with such unrecognized compensation expense expected to be recognized over a weighted average period of approximately 2.3 years subsequent to

December 31, 2007. The ultimate amount of such expense is dependent upon the actual number of RSUs that vest. The Company periodically assesses the forfeiture rates used for such estimates. A change in estimated forfeiture rates would cause the aggregate amount of compensation expense recognized in future periods to differ from the estimated unrecognized compensation expense described herein.

In January, 2008, the Company granted 11,618,680 RSUs to eligible employees that vest at various dates during the period ending December 31, 2012, and had a weighted average fair value on the dates of grant of $37.23 per RSU. The compensation expense with respect to these grants, net of forfeitures, will be recognized over a weighted average period of 3.5 years.

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Share Repurchase Program

On February 7, 2006, the Board of Directors of Lazard Ltd authorized the repurchase of up to $100,000 in aggregate cost of its Class A common stock and Lazard Group common membership interests. On August 9, 2007, the Board of Directors increased this repurchase authorization by an additional $100,000, and on February 26, 2008, the Board of Directors increased this purchase authorization by a further $100,000. The Company s intention is that the share repurchase program, with respect to the Class A common stock, will be used primarily to offset shares that have been or will be issued under the Equity Incentive Plan. Purchases may be made in the open market or through privately negotiated transactions through June 30, 2009.

During the years ended December 31, 2007 and 2006, Lazard Group purchased 1,678,600 and 115,000 shares, respectively, of Class A common stock in the open market for an aggregate cost of $68,052 and $4,179, respectively (at average purchase prices of $40.54 per share and $36.34 per share, respectively). As a result of Lazard Group s delivery of 80,754 shares for the settlement of vested RSUs during the year ended December 31, 2007, there were 1,712,846 shares of Class A common stock held by Lazard Group at December 31, 2007. Such Class A common shares are reported, at cost, as Class A common stock held by a subsidiary on the consolidated statements of financial condition. Furthermore, pursuant to the share repurchase program, through December 31, 2007 Lazard Group purchased 583,899 common membership interests (which were exchangeable at future dates for shares of Class A common stock) from LAZ-MD Holdings in privately negotiated transactions with an aggregate cost of $21,840.

During the first quarter of 2008, through February 26, 2008, Lazard Group purchased 1,568,500 shares of Lazard Ltd Class A common stock in the open market at an aggregate cost of $58,729 (at an average purchase price of approximately $37.44 per share). In addition, in February, 2008, Lazard Group entered into a purchase agreement with a member of LAZ-MD Holdings to purchase 500,000 shares of Lazard Ltd Class A common stock for $18,940 (at an average purchase price of approximately $37.88 per share), which will settle on May 12, 2008.

As of February 26, 2008, after giving effect to the transactions described above, $128,260 remained available under the share repurchase program.

Preferred Stock

Lazard Ltd has 15,000,000 authorized shares of preferred stock, par value $0.01 per share, inclusive of its Series A preferred stock and Series B preferred stock. As of December 31, 2007, 36,607 shares of Series A preferred stock and 277 shares of Series B preferred stock have been issued and are outstanding. Such shares were issued in connection with the acquisition of CWC as described in Note 7 of Notes to the Consolidated Financial Statements. These preferred securities have no voting or dividend rights.

The 277 shares of the Series B preferred stock and 12,155 shares of the Series A preferred stock outstanding at December 31, 2007 are convertible into shares of Class A common stock. The remaining 24,452 shares of the Series A preferred stock outstanding at December 31, 2007 may be convertible into shares of Class A common stock upon completion or satisfaction of specified obligations in the CWC acquisition agreement.

The initial conversion rate, at the time of the acquisition was 100 shares of Class A common stock to one share of Series A or Series B preferred stock, with the ultimate conversion rate dependent on certain variables, including the value of the Class A common stock, as defined, and the currency exchange rate on the date of conversion.

The Series A preferred stock and Series B preferred stock have been issued pursuant to Section 4(2) of the Securities Act of 1933 and Regulation S thereunder.

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(dollars in thousands, except for per share data, unless otherwise noted)

Accumulated Other Comprehensive Income, Net of Tax

The components of accumulated other comprehensive income, net of tax, at December 31, 2007 and 2006 are as follows:

	December 31, 2007	December 31, 2006
Currency translation adjustments	$ 121,280	$ 97,854
Interest rate hedge	(8,097)	(9,197)
Net unrealized loss on available-for-sale securities	(670)	
Employee benefit plans	(60,022)	(56,163)
Total	$ 52,491	$ 32,494

15. NET INCOME PER SHARE OF CLASS A COMMON STOCK

The Company s basic and diluted net income per share calculations for the years ended December 31, 2007 and 2006 and for the period commencing May 10, 2005 through December 31, 2005 are computed as described below.

Basic Net Income Per Share

Numerator (i) with respect to 2007 and 2006, utilizes net income for the years ended December 31, 2007 and 2006, plus adjustment to net income for the year ended December 31, 2007 associated with the inclusion of shares of Class A common stock issuable in connection with a business acquisition described in Note 7 of Notes to Consolidated Financial Statements and (ii) with respect to 2005, utilizes net income available for Class A common stockholders for the period May 10, 2005 through December 31, 2005.

Denominator (i) with respect to 2007 and 2006, utilizes the weighted average number of shares of Class A common stock outstanding for the years ended December 31, 2007 and 2006, plus an adjustment to the weighted average number of shares of Class A common stock outstanding for the year ended December 31, 2007 associated with shares of Class A common stock issuable in connection with a business acquisition and (ii) with respect to the year ended December 31, 2005, utilizes the 37,500,000 weighted average number of shares of Class A common stock outstanding between May 10, 2005 and December 31, 2005.

Diluted Net Income Per Share

Numerator utilizes net income available for Class A common stockholders for the years ended December 31, 2007, 2006 and 2005 as in the basic net income per share calculation described above, plus, to the extent applicable and dilutive, (i) interest expense on convertible debt, (ii) changes in minority interest in net income resulting from assumed share issuances in connection with DSUs, RSUs, ESUs, convertible debt, convertible preferred stock and, on an as-if-exchanged basis, amounts applicable to LAZ-MD Holdings exchangeable interests, and (iii) income tax related to (i) and (ii) herein.

Denominator utilizes the weighted average number of shares of Class A common stock outstanding for the years ended December 31, 2007, 2006 and 2005 as in the basic net income per share calculation described above, plus, to the extent applicable and dilutive, (i) the incremental number of shares of Class A common stock to settle DSU and RSU awards and ESUs, as calculated using the treasury stock method, (ii) convertible debt and convertible preferred stock, as calculated using the if converted method and (iii) LAZ-MD Holdings exchangeable interests, on an as-if-exchanged basis.

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(dollars in thousands, except for per share data, unless otherwise noted)

The calculations of the Company s basic and diluted net income per share and weighted average shares outstanding for the years ended December 31, 2007, 2006 and 2005 are presented below:

	Year Ended December 31,		
	2007	2006	2005
Net income	$155,042	$92,985	$143,486
Add adjustment associated with Class A common stock issuable on a non-contingent basis	678		
Less Net income allocable to members of Lazard Group (for the period January 1, 2005 through May 9, 2005)			89,175
Net income basic	155,720	92,985	54,311
Add dilutive effect of:			
Adjustments to income relating to interest expense on convertible debt and changes in minority interest in net income resulting from assumed share issuances in connection with DSUs, RSUs, ESUs, convertible debt and convertible preferred stock, net of tax	17,623	8,835	
Net income diluted	$173,343	$101,820	$54,311
Weighted average number of shares of Class A common stock outstanding	50,875,372	38,432,815	37,500,000
Add adjustment for shares of Class A common Stock issuable on a non-contingent basis	310,267		
Weighted average number of shares of Class A common stock outstanding basic	51,185,639	38,432,815	37,500,000
Add dilutive effect of:			
Weighted average number of incremental shares issuable from DSUs, RSUs, ESUs, convertible debt and convertible preferred stock	11,026,978	5,733,316	61,138
Weighted average number of shares of Class A common stock outstanding diluted	62,212,617	44,166,131	37,561,138
Net income per share of Class A common stock:			
Basic	$3.04	$2.42	$1.45
Diluted	$2.79	$2.31	$1.45

Net income per share information is not applicable for reporting periods prior to May 10, 2005, the date of the consummation of the equity public offering. Losses related to discontinued operations were incurred prior to May 10, 2005. Therefore, such losses are borne entirely by the members of Lazard Group, and do not affect net income per share.

For the years ended December 31, 2007, 2006 and 2005, the LAZ-MD Holdings exchangeable interests were antidilutive (and consequently the effect of their conversion into shares of Class A common stock has been excluded from the calculation of diluted net income per share).

Prior to the issuance of the Class A common stock upon settlement of the purchase contracts, the ESUs are reflected in the Company s diluted net income per share using the treasury stock method. Under the treasury

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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stock method, as defined by SFAS No. 128, *Earning Per Share* , the number of shares of common stock included in the calculation of diluted net income per share is the excess, if any, of the number of shares expected to be issued upon settlement of the purchase contracts, less the number of shares that could be purchased by the Company with the proceeds to be received upon settlement at the average market closing price during the reporting period. The number of shares of common stock Lazard Ltd will issue upon settlement of the forward purchase contract component of the ESUs is not fixed, but instead is dependent on the closing price per share of its Class A common stock for each of the 20 trading days beginning on April 15, 2008. Because the settlement terms of the purchase contracts vary, the number of shares to be issued depends on whether the closing price of the stock for the last 20 trading days in the reporting period is less than or equal to $25 per share, greater than $25 per share and less than $30 per share or greater than or equal to $30 per share. Dilution of net income per share will occur (i) in reporting periods when the average closing price of Class A common stock is over $30 per share and (ii) in reporting periods when the average closing price of Class A common stock for a reporting period is greater than $25 and is greater than the average market price for the last 20 days of such reporting period.

For the years ended December 31, 2007 and 2006, the ESUs were dilutive. For the period May 10, 2005 through December 31, 2005, the ESUs were antidilutive and, consequently, they had no impact on diluted net income per share.

As discussed in Note 8 of Notes to Consolidated Financial Statements, on May 15, 2006, the Company completed the termination of its strategic alliance with Intesa. In connection therewith, Lazard Group issued the Amended $150,000 Subordinated Convertible Note that is convertible into 2,631,570 shares of Class A common stock. The shares potentially issuable under the terms of such note, to the extent dilutive, are considered in the calculation of the weighted average shares outstanding using the if converted method, for purposes of calculating diluted net income per share, and interest expense, net of income tax, related to such note would be excluded from net income for purposes of calculating diluted net income per share. In the calculation of diluted net income per share for the years ended December 31, 2007 and 2006, the assumed conversion of the Amended $150,000 Subordinated Convertible Note was dilutive.

As discussed in Notes 7 and 14 of Notes to Consolidated Financial Statements, on July 31, 2007 Lazard Ltd acquired all of the outstanding shares of CWC for a combination of cash and Series A and Series B preferred stock, with such shares of preferred stock being convertible into shares of Class A common stock upon completion or satisfaction of specified obligations in the CWC acquisition agreement. As of December 31, 2007, 12,432 of the 36,884 preferred shares were convertible to Class A common stock on a non-contingent basis. While the conversion rate to determine the number of Class A common shares is not determinable until the date of conversion, it was estimated, as of December 31, 2007, that such preferred shares were convertible into 539,981 Class A common shares, on a weighted basis, and were dilutive for purposes of computing diluted net income per common share for the year then ended.

16. EMPLOYEE BENEFIT PLANS

The Company, through its subsidiaries, provides retirement and other post-employment benefits to certain of its employees through defined contribution and defined benefit pension plans and other post-retirement benefit plans. The Company has the right to amend or terminate its benefit plans at any time subject to the terms of such plans. Expenses (benefits) related to the Company s employee benefit plans are included in compensation and benefits expense and, with respect to the separated businesses, loss from discontinued operations on the consolidated statements of income. The Company uses December 31 as the measurement date for its employee benefit plans.

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(dollars in thousands, except for per share data, unless otherwise noted)

In September 2006, the FASB issued SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Post-Retirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)* (SFAS No. 158), which the Company adopted as of December 31, 2006. In accordance with SFAS No. 158, the Company recognized, in its consolidated statement of financial condition at December 31, 2006, the funded status of its defined benefit pension and other post-retirement benefit plans, as measured by the difference between the fair value of the plan assets and the corresponding benefit obligations. Additionally, pursuant to SFAS No. 158, actuarial gains and losses and prior service costs and credits that arise during the year are to be recognized in accumulated other comprehensive income, net of tax, to the extent such items are not recognized in earnings as a component of net periodic benefit cost (credit).

The following table summarizes the effect of changes in the additional minimum pension liabilities (AML) as of December 31, 2006 prior to the adoption of SFAS No. 158, as well as the impact of the initial adoption of SFAS No. 158 on the Company s consolidated statement of financial condition as of December 31, 2006:

	December 31, 2006 Prior To AML and SFAS No. 158 Adjustments	AML Adjustments	SFAS No. 158 Adjustments	December 31, 2006 After AML and SFAS No. 158 Adjustments
Prepaid pension asset (included in other assets)	$16,695		$(8,663)	$8,032
Pension liabilities (included in other liabilities)	(29,276)	$14,518	8,663	(6,095)
Post-retirement liabilities (included in other liabilities)	(12,057)		1,754	(10,303)
Accumulated other comprehensive income, excluding tax of $834	71,601	(14,518)	(1,754)	55,329

The Company s pension and post-retirement benefits plans are described below.

LFNY Defined Benefit Pension Plans and Post-Retirement Benefit Plan LFNY has two non-contributory defined benefit pension plans the Employees Pension Plan (EPP), which provides benefits to participants based on certain averages of compensation, as defined, and the Employees Pension Plan Supplement (EPPS), which provides benefits to certain employees whose compensation exceeds a defined threshold. It is LFNY s policy to fund EPP to meet the minimum funding standard as prescribed by the Employee Retirement Income Security Act of 1974 (ERISA). EPPS is a non-qualified supplemental plan that was unfunded at December 31, 2007. LFNY utilizes the projected unit credit actuarial method for financial reporting purposes.

Effective as of January 31, 2005, the EPP and EPPS were amended to cease future benefit accruals and future participation. As a result of such amendment, active participants continue to receive credit for service completed after January 31, 2005 for purposes of vesting; however, future service does not count for purposes of future benefit accruals under these plans. Vested benefits for active participants as of January 31, 2005 have been retained.

LFNY Post-Retirement Medical Plan LFNY also has a non-funded contributory post-retirement medical plan (the Medical Plan) covering qualifying employees. The Medical Plan pays stated percentages of most necessary medical expenses incurred by retirees, after subtracting payments by Medicare or other providers and after stated deductibles have been met. Participants become eligible for benefits if they retire from the Company after reaching age 62 and completing 10 years of service.

Effective January 1, 2005, post-retirement health care benefits are no longer offered to those managing directors and employees hired on or after the effective date and for those managing directors and employees

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hired before the effective date who attain the age of 40 after December 31, 2005. In addition, effective January 1, 2006, the cost sharing policy changed for those who qualify for the benefit. The Company amended the Medical Plan effective January 1, 2008, such that employees and managing directors who meet the Medical Plan s age and service requirements have the ability, upon retirement, to elect to purchase medical coverage through the Medical Plan at no cost to the Company.

Settlement Transactions Relating to LFNY s EPP, EPPS and Medical Plan In accordance with SFAS No. 88, *Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefit*s (SFAS No. 88), during the year ended December 31, 2005 the Company recorded a net charge of $388 (comprised of charges (credits) of $3,369, ($27) and ($2,954) relating to the EPP, EPPS and Medical Plan obligations, respectively), for the estimated costs relating to the settlement and curtailment of EPP, EPPS and Medical Plan obligations and special termination benefits to employees in the separated businesses. Of this amount, $2,420 is included in loss from discontinued operations and ($2,032) is included in compensation and benefits expense on the consolidated statements of income.

During the year ended December 31, 2006, the Company recognized a settlement loss of $1,139 attributable to settlements with pension plan participants who elect lump sum payments upon their retirement or discontinuation of service to the Company. Additionally, during the year ended December 31, 2006, the Company recognized a settlement loss of $303 as a result of the settlement of post-retirement medical plan obligations associated with employees of the separated business. The losses described herein were included in compensation and benefits expense on the consolidated statement of income.

LCH Defined Benefit Pension Plans LCH has two defined benefit pension plans and utilizes the projected unit credit actuarial method for financial reporting purposes.

Effective March 31, 2006, the LCH pension plans were amended to cease future accruals. As a result of such amendment, future service and compensation increases will not be taken into account for purposes of future benefit accruals under the plans. Vested benefits for active participants as of March 31, 2006 were retained. In accordance with SFAS No. 88, as of December 31, 2005 the projected benefit obligations under the plans were reduced by approximately $7,600 representing a reduction in the unrecognized net actuarial loss under the plans. In addition, during the fourth quarter of 2005 the Company recorded within compensation and benefits expense on the consolidated statement of income a curtailment gain of $2,095 resulting from the release of an unamortized prior service credit in one of the plans.

Termination of LCH s Post-Retirement Medical Plan In April 2004, LCH announced a plan to terminate its post-retirement medical plan. As a result of such action, benefits available to eligible active employees and retirees ceased on February 28, 2007. In accordance with SFAS No. 106, *Employers Accounting for Post-Retirement Benefits Other Than Pensions*, the Company recognized the effect of such termination as a reduction of employee compensation and benefits expense over the period ending February, 2007. For the years ended December 31, 2007, 2006 and 2005, compensation and benefits expense on the consolidated statements of income was reduced by $1,695, $9,515 and $9,761, respectively, related to the effect of such termination.

Employer Contributions and Indemnities from LFCM Holdings As of December 31, 2005, Lazard Group s principal U.K. pension plans had a combined deficit of approximately $46,800 (or approximately 27.2 million British pounds). This deficit would ordinarily be funded over time. In the third quarter of 2005, agreements were executed between Lazard Group and the trustees of such pension plans dealing with a plan for the future funding of the deficit. As part of the separation, the Company made a contribution to LFCM Holdings of $55,000 in connection with the provision by LFCM Holdings of support relating to U.K. pension liabilities and other indemnities. During the years ended December 31, 2007, 2006 and 2005, contributions of approximately $16,400, $30,500 and $29,800, respectively (equaling 8.2 million British pounds for the year ended December 31, 2007 and 16.4 million British pounds for each of the years ended December 31, 2006 and

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2005) were made to the Company s defined benefit pension plans in the U.K., of which 15.0 million British pounds were reimbursed by LFCM Holdings for each of the years ended December 31, 2006 and 2005, with such reimbursements by LFCM Holdings in full satisfaction of their obligation of support described above. Irrespective of the funded status of the plans, the Company is obligated to make a further payment amounting to 8.2 million British pounds on June 1, 2008, which approximates $16,460 using exchange rates as of December 31, 2007. At December 31, 2007, the U.K. pension plans had a combined surplus of approximately $17,600.

The following table summarizes LFNY s and LCH s benefit obligations, the fair value of the assets, the funded status and amounts recognized in the consolidated statements of financial condition at December 31, 2007 and 2006:

	Pension Plans December 31,		Pension Plan Supplement December 31,		Post-Retirement Medical Plans December 31,	
	2007	2006	2007	2006	2007	2006
Change in benefit obligation						
Benefit obligation at beginning of year	$ 532,129	$ 487,791	$ 1,102	$ 1,161	$ 10,303	$ 18,827
Service cost		1,595			165	134
Interest cost	27,368	24,815	58	62	435	362
Amendments					(1,700)	(10,143)
Actuarial (gain) loss	2,552	(18,314)	(130)		(1,631)	1,959
Benefits paid	(20,958)	(28,272)	(22)	(128)	(643)	(1,380)
Settlement to LFCM Holdings						(1,002)
Settlements (curtailments)		594		7		
Foreign currency translation adjustment	11,851	63,920			48	1,546
Benefit obligation at end of year	552,942	532,129	1,008	1,102	6,977	10,303
Change in plan assets						
Fair value of plan assets at beginning of year	535,168	439,686				
Actual return on plan assets	31,592	31,432				
Employer contributions	16,409	32,673	22	128	643	1,380
Benefits paid	(20,958)	(28,272)	(22)	(128)	(643)	(1,380)
Foreign currency translation adjustment	11,983	59,649				
Fair value of plan assets at end of year	574,194	535,168				
Funded surplus (deficit) at end of year	$ 21,252	$ 3,039	$ (1,008)	$ (1,102)	$ (6,977)	$ (10,303)
Amounts recognized in the consolidated statements of financial condition consist of:						
Prepaid pension asset (included in other assets)	$ 21,252	$ 8,032				
Accrued benefit liability (included in other liabilities)		(4,993)	$ (1,008)	$ (1,102)	$ (6,977)	$ (10,303)

Net amount recognized	$ 21,252	$ 3,039	$ (1,008)	$ (1,102)	$ (6,977)	$ (10,303)
Amounts recognized in accumulated other comprehensive income (excluding tax of $356 and $834 at December 31, 2007 and 2006, respectively) consist of:						
Actuarial net (gain) loss	$62,368	$57,068	$(115)	$15	$ 1,199	$3,414
Prior service credit					(3,786)	(5,168)
Net amount recognized	$62,368	$57,068	$(115)	$15	$ (2,587)	$(1,754)

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The following table summarizes the fair value of plan assets, the accumulated benefit obligation and the projected benefit obligation at December 31, 2007 and 2006:

	LFNY Pension Plans As Of December 31,		LCH Pension Plans As Of December 31,		Total	
	2007	2006	2007	2006	2007	2006
Fair value of plan assets	$27,962	$28,868	$546,232	$506,300	$574,194	$535,168
Accumulated benefit obligation	$24,334	$28,491	$528,608	$503,638	$552,942	$532,129
Projected benefit obligation	$24,334	$28,491	$528,608	$503,638	$552,942	$532,129

The following table summarizes the components of benefit costs, the return on plan assets, benefits paid, contributions and other amounts recognized in other comprehensive income for the years ended December 31, 2007, 2006 and 2005 for LFNY and LCH, as well as the allocation of total costs between continuing and discontinued operations for each period:

	Pension Plans For The Years Ended December 31,			Pension Plan Supplement For The Years Ended December 31,			Post-Retirement Medical Plans For The Years Ended December 31,		
	2007	2006	2005	2007	2006	2005	2007	2006	2005
Components of net periodic benefit cost (credit):									
Service cost		$ 1,595	$ 7,061				$ 165	$ 134	$ 224
Interest cost	$ 27,368	24,815	26,165	$ 58	$ 62	$ 86	435	362	519
Expected return on plan assets	(33,579)	(29,027)	(27,259)						
Amortization of:									
Prior service credit			(442)				(1,382)	(1,382)	(1,564)
Net actuarial (gain) loss	379	1,796	3,098			(7)	584	283	313
Net periodic benefit cost (credit)	(5,832)	(821)	8,623	58	62	79	(198)	(603)	(508)
Settlements (curtailments)		1,139	1,086		(7)		(1,695)	(9,212)	(12,715)
Special termination benefits			188			(27)			
Total benefit cost (credit)	(5,832)	318	9,897	58	55	52	(1,893)	(9,815)	(13,223)
Less portion related to discontinued operations			2,252			(15)			324
Total benefit cost (credit) from continuing operations	$ (5,832)	$ 318	$ 7,645	$ 58	$ 55	$ 67	$ (1,893)	$ (9,815)	$ (13,547)
Actual return on plan assets	$ 31,592	$ 31,432	$ 58,550						
Employer contributions	$ 16,409	$ 32,673	$ 33,304	$ 22	$ 128	$ 697	$ 643	$ 1,380	$ 1,217

Plan participants contributions									$ (2)
Benefits paid	$ 20,958	$ 28,272	$ 26,816	$ 22	$ 128	$ 697	$ 643	$ 1,380	$ 1,277
Other changes in plan assets and benefit obligations recognized in other comprehensive income (excluding tax benefit of $478):									
Net actuarial (gain) loss	$ 4,540			$ (130)			$ (1,631)		
Reclassification of prior service credit to earnings							1,382		
Reclassification of actuarial loss to earnings	(379)						(584)		
Currency translation adjustment	1,139								
Total recognized in other comprehensive income	$ 5,300			$ (130)			$ (833)		
Net amount recognized in total periodic benefit cost and other comprehensive income	$ (532)			$ (72)			$ (2,726)		

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The amounts in accumulated other comprehensive income on the consolidated statement of financial condition as of December 31, 2007 that are expected to be recognized as components of net periodic benefit cost (credit) for the year ending December 31, 2008 are as follows:

	Pension Plans	Pension Plan Supplement	Post-Retirement Medical Plans	Total
Prior service credit			$ (1,382)	$ (1,382)
Net actuarial (gain) loss	$ 383	$ (1)	$ 142	$ 524

The assumptions used to develop actuarial present value of the projected benefit obligation and net periodic pension cost are set forth below:

	Pension Plans As Of Or For the Years Ended December 31,			Pension Plan Supplement As Of Or For the Years Ended December 31,			Post-Retirement Medical Plans As Of Or For the Years Ended December 31,		
	2007	2006	2005	2007	2006	2005	2007	2006	2005
Weighted average assumptions used to determine benefit obligations:									
Discount rate	5.8%	4.8%	4.8%	6.5%	5.5%	5.5%	6.5%	5.5%	5.5%
Weighted average assumptions used to determine net periodic benefit cost:									
Discount rate	5.1%	5.2%	5.3%	5.5%	5.5%	6.0%	5.5%	5.5%	6.0%
Expected long-term rate of return on plan assets	6.1%	6.1%	6.2%						
Healthcare cost trend rates used to determine net periodic benefit cost:									
Initial							10.0%	8.0%	9.5%
Ultimate							6.0%	6.0%	6.0%
Year ultimate trend rate achieved							2011	2008	2008

Generally, the Company determined the discount rates for its defined benefit plans by utilizing indices for long-term, high-quality bonds and ensuring that the discount rate does not exceed the yield reported for those indices after adjustment for the duration of the plans liabilities.

In selecting the expected long-term rate of return on plan assets, the Company considered the average rate of earnings expected on the funds invested or to be invested to provide for the benefits of the plan, giving consideration to expected returns on different asset classes held by the plans in light of prevailing economic conditions as well as historic returns. This basis is consistent for all years presented.

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The assumed cost of healthcare has an effect on the amounts reported for the Company s post-retirement plans. A 1% change in the assumed healthcare cost trend rate would increase (decrease) our cost and obligation as follows:

	1% Increase		1% Decrease	
	2007	2006	2007	2006
Cost	$ 81	$69	$ (68)	$ (58)
Obligation	$ 791	$ 1,073	$ (678)	$ (908)

Expected Benefit Payments The following table summarizes the expected benefit payments for the Company s plans for each of the next five fiscal years and in the aggregate for the five fiscal years thereafter:

	Pension Plans	Pension Plan Supplement	Post-Retirement Medical Plans
2008	$ 17,010	$ 75	$ 394
2009	18,012	125	424
2010	18,807	57	456
2011	19,823	138	486
2012	20,916	97	532
2013-2017	121,614	354	2,863

Plan Assets The Company s weighted-average asset allocations relating to the Company s pension plans at December 31, 2007 and 2006, by asset category, are as follows:

	December 31,	
	2007	2006
Asset Category		
Equity Securities	42%	47%
Debt Securities	55	51
Other (includes cash, annuities and accrued dividends)	3	2
Total	100%	100%

Investment Policies and Strategies The primary investment goal is to ensure that the plans remain well funded, taking account of the likely future risks to investment returns and contributions. As a result, a portfolio of assets is maintained with appropriate liquidity and diversification that can be expected to generate long-term future returns that minimize the long-term costs of the pension plan without exposing the trust to an unacceptable risk of under funding. The Company s likely future ability to pay such contributions as are required to maintain the funded status of the plans over a reasonable time period is considered when determining the level of risk that is appropriate.

Defined Contribution Plans LFNY and LCH also contribute to employer sponsored defined contribution plans. Contributions to these plans amount to $9,294, $7,944 and $4,975 for the years ended December 31, 2007, 2006 and 2005, respectively, which are included in compensation and benefits expense and $1,182 for the year ended December 31, 2005 which is included in loss from discontinued operations on the consolidated statements of income. Effective January 1, 2005, the LFNY defined contribution plan was amended to provide for certain matching contributions by the Company. Effective April 1, 2006, the LCH defined contribution plan was amended to provide benefits to substantially all its employees who were previously covered under the LCH defined benefit pension plans.

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(dollars in thousands, except for per share data, unless otherwise noted)

17. INCOME TAXES

Income taxes from continuing operations for the years ended December 31, 2007, 2006 and 2005 consist of:

	Year Ended December 31,		
	2007	2006	2005
Current expense:			
Federal	$ 2,709	$ 2,836	$ 1,831
Foreign	84,175	65,229	60,461
State and local (primarily UBT)	10,123	5,037	4,251
Total current	97,007	73,102	66,543
Deferred expense (benefit):			
Federal	(9,392)		
Foreign	(6,999)	(4,290)	(7,558)
Total deferred	(16,391)	(4,290)	(7,558)
Total	$ 80,616	$ 68,812	$ 58,985

A reconciliation of the U.S. federal statutory income tax rate to the Company s effective tax rate on income from continuing operations is set forth below:

	Year Ended December 31,		
	2007	2006	2005
U.S. federal statutory income tax rate	35.0%	35.0%	35.0%
Rate benefit for U.S. partnership operations, prior to May 10, 2005, the date of the equity public offering			(11.4)
Income of minority interest	(18.9)	(21.7)	(14.7)
Foreign source income not subject to U.S. income tax	(10.8)	(5.9)	(4.1)
Foreign taxes	18.5	18.6	15.5
State and local taxes, primarily UBT	2.4	1.5	1.2
Amortization and depreciation (a)	(5.6)	(5.4)	(3.1)
Other, net	(1.3)	(1.1)	(1.2)

Effective income tax rate	19.3%	21.0%	17.2%

(a) Primarily relates to the amortization of the basis step-ups resulting from the separation and recapitalization and the exchange of LAZ-MD exchangeable interests in connection with the Secondary Offering in 2006 and the basis step-up for U.S. income taxes on certain U.K. assets. A valuation allowance had previously been provided for these deferred tax assets.

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(dollars in thousands, except for per share data, unless otherwise noted)

Deferred income taxes are provided for the effects of temporary differences between the tax basis of an asset or liability and its reported amount in the consolidated statements of financial condition. These temporary differences result in taxable or deductible amounts in future years. Details of the Company s deferred tax assets and liabilities, which are included in other assets and other liabilities , respectively, on the consolidated statements of financial condition, are as follows:

	December 31, 2007	December 31, 2006
Deferred Tax Assets:		
Compensation and benefits	$ 32,097	$ 14,065
Pensions	125	1,255
Depreciation and amortization	8,548	6,928
Basis adjustments as a result of the equity public offering and Secondary Offering	341,763	348,864
Bad debt provision	1,108	991
Property	4,607	4,358
Net operating loss and tax credit carryforwards	83,277	68,123
Other	5,926	4,756
Gross deferred tax assets	477,451	449,340
Valuation allowance	(428,147)	(428,849)
Total deferred tax assets (net of valuation allowance)	$ 49,304	$ 20,491
Deferred Tax Liabilities:		
Pensions	$ 5,191	$ 906
Cumulative currency translation adjustments	7,681	4,600
Unrealized gains on investments	6,654	5,009
Depreciation and amortization	21,047	19,221
Other	1,296	644
Total deferred tax liabilities	$ 41,869	$ 30,380

The net increase in gross deferred tax assets of $28,111 in 2007 was primarily attributable to the tax effects of an increase in temporary differences relating to compensation and benefits of $18,032 and an increase in net operating loss and tax credit carryforwards of $15,154, partially offset by a decrease in the tax effect of the basis adjustments resulting from the equity public offering and Secondary Offering of $7,101.

The basis adjustments recorded as of December 31, 2007 and 2006 are the result of:

purchases and redemptions of historical and working member interests consummated in connection with the separation and recapitalization of the Company, which resulted in deferred tax assets of $215,436 and $216,214 at December 31, 2007 and 2006, respectively;

basis step-ups for U.S. income tax purposes resulting from the exchange of LAZ-MD exchangeable interests in connection with the Secondary Offering in 2006, which resulted in deferred tax assets of $100,750 and $108,245 at December 31, 2007 and 2006, respectively, and

tax basis step-up for U.S. income tax purposes on certain U.K. assets, which resulted in deferred tax assets of $25,577 and $24,405 at December 31, 2007 and 2006, respectively.

LAZARD LTD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(dollars in thousands, except for per share data, unless otherwise noted)

The deferred tax assets are offset by a valuation allowance of $428,147 and $428,849 at December 31, 2007 and 2006, respectively, due to the uncertainty of realizing the benefits of the book versus tax basis temporary differences and certain net operating loss carry-forwards. The valuation allowance at December 31, 2007 reflects a net decrease of $702 from the balance of $428,849 at December 31, 2006, and is primarily the result of an increase in deferred tax liabilities and a decrease in the valuation allowance related to the equity public offering and Secondary Offering basis adjustments, partially offset by an increase in the valuation allowance related to the compensation and benefits temporary differences and net operating loss and tax credit carryforwards.

The Company s net operating loss and tax credit carryforwards primarily relate to (i) carryforwards in the U.K., at December 31, 2007 and 2006, which may be carried forward indefinitely, subject to various limitations, and (ii) carryforwards in Italy and the U.S., at December 31, 2007 and 2006, which begin expiring in years after 2011.

UBT attributable to certain member distributions has been reimbursed by the members under an agreement with the Company.

As previously disclosed, the Company adopted FIN No. 48 on January 1, 2007. The cumulative effect of the Company s adoption of FIN No. 48 was a charge of $13,221 to the January 1, 2007 balance of retained earnings. As of the adoption date, the Company had unrecognized tax benefits of $37,520, including $5,132 related to interest and penalties, of which $27,352, if recognized, would favorably affect the effective tax rate as a valuation allowance of $10,168 would be established against the deferred tax assets previously offset by the unrecognized tax benefit. The Company recognizes interest and/or penalties related to income tax matters in income tax expense. With few exceptions, the Company is no longer subject to income tax examination by foreign tax authorities for years prior to 2003 and by U.S. federal, state and local tax authorities for years prior to 2004. While we are under examination in various tax jurisdictions with respect to certain open years, the Company believes that the result of any final determination related to these examinations is not expected to have a material impact on its financial statements. Developments with respect to such examinations are monitored on an on-going basis and adjustments to tax liabilities are made as appropriate.

A reconciliation of the beginning to the ending amount of gross unrecognized tax benefits (excluding interest and penalties) for the year ended December 31, 2007 is as follows:

Balance, January 1, 2007 (excluding interest and penalties of $5,132)	$32,388
Decreases in gross unrecognized tax benefits pertaining to tax positions taken during prior years	(7,052)
Increases in gross unrecognized tax benefits pertaining to tax positions taken during the current year	7,933
Decreases in gross unrecognized tax benefits relating to settlements with taxing authorities	(702)
Reductions to gross unrecognized tax benefits as a result of a lapse of the applicable statute of limitations	(487)
Balance, December 31, 2007 (excluding interest and penalties of $5,195)	$32,080

The amount of unrecognized tax benefits at December 31, 2007 that, if recognized, would favorably affect the effective tax rate is $25,477 as a valuation allowance of $11,798 would be established against the deferred tax assets previously offset by the unrecognized tax benefit. Such amount includes $5,195 of interest and penalties accrued in the statement of financial condition, of which $63 was recognized in current income tax expense

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during the year ended December 31, 2007 after giving effect to a reversal of interest and penalties of $1,002 in connection with the decreases referred to in the table above. The decreases in gross unrecognized tax benefits pertaining to tax positions taken during prior years results primarily from the favorable conclusion of tax audits.

The Company anticipates that it is reasonably possible that the total amount of unrecognized tax benefits recorded at December 31, 2007 will decrease within 12 months by an amount up to approximately $3,300 as a result of the lapse of the statute of limitations in various taxing jurisdictions.

Tax Receivable Agreement

The redemption of historical partner interests in connection with the separation and recapitalization has resulted, and the exchanges of LAZ-MD Holdings exchangeable interests for shares of Class A common stock may result, in increases in the tax basis of the tangible and/or intangible assets of Lazard Group. The tax receivable agreement dated as of May 10, 2005 with LFCM Holdings requires the Company to pay LFCM Holdings 85% of the cash savings, if any, in U.S. federal, state and local income tax or franchise tax that the Company actually realizes as a result of the above-mentioned increases in tax basis. During the years ended December 31, 2007, 2006, 2005, the Company recorded a provision pursuant to tax receivable agreement on the consolidated statements of income of $17,104, $5,964 and $2,685, respectively, with the liability related thereto at December 31, 2007 and 2006 of $25,743 and $9,418, respectively, included within related party payables on the consolidated statements of financial condition.

18. RELATED PARTIES

Amounts receivable from, and payable to, related parties as of December 31, 2007 and 2006 are set forth below:

	December 31,	
	2007	**2006**
Receivables		
LFCM Holdings	$28,906	$ 18,493
LAZ-MD Holdings	1,280	50
Other	101	
Total	$30,287	$ 18,543
Payables		
LFCM Holdings	$26,707	$ 9,794

LFCM Holdings

LFCM Holdings owns and operates the separated businesses and is owned by the working members, including certain of Lazard s managing directors (which also include our executive officers) who are also members of LAZ-MD Holdings. In addition to the master separation agreement which effected the separation and recapitalization discussed in Note 2 of Notes to Consolidated Financial Statements, LFCM Holdings entered into an insurance matters agreement and a license agreement that addressed various business matters associated with the separation, as well as several other agreements discussed below.

Under the employee benefits agreement, dated as of May 10, 2005, by and among Lazard Ltd, Lazard Group, LAZ-MD Holdings and LFCM Holdings, LFCM Holdings generally assumed, as of the completion of the separation and recapitalization transactions, all outstanding and future liabilities in respect of the current and

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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former employees of the separated businesses. The Company retained all accrued liabilities under, and assets of, the pension plans in the U.S. and the U.K. as well as the 401(k) Plan accounts of the inactive employees of LFCM Holdings and its subsidiaries. See Note 16 of Notes to Consolidated Financial Statements for additional information regarding employer contributions and indemnities from LFCM Holdings.

Pursuant to the administrative services agreement, dated as of May 10, 2005, by and among LAZ-MD Holdings, LFCM Holdings and Lazard Group (the administrative services agreement), Lazard Group provides selected administrative and support services to LAZ-MD Holdings and LFCM Holdings, such as cash management and debt service administration, accounting and financing activities, tax, payroll, human resources administration, financial transaction support, information technology, public communications, data processing, procurement, real estate management, and other general administrative functions. Lazard Group charges for these services based on Lazard Group s cost allocation methodology.

The services provided by Lazard Group to LFCM Holdings and by LFCM Holdings to Lazard Group under the administrative services agreement generally will be provided until December 31, 2008, subject to automatic annual renewal, unless either party gives 180 days notice of termination. LFCM Holdings and Lazard Group have a right to terminate the services earlier if there is a change of control of either party or the business alliance provided in the business alliance agreement expires or is terminated. The party receiving a service may also terminate a service earlier upon 180 days notice as long as the receiving party pays the service provider an additional three months of service fee for terminated service.

The business alliance agreement provides, among other matters, that Lazard Group will refer to LFCM Holdings selected opportunities for underwriting and distribution of securities. In addition Lazard Group will provide assistance in the execution of any such referred business. In exchange for the referral obligation and assistance, Lazard Group will receive a referral fee from LFCM Holdings equal to approximately half of the revenue obtained by LFCM Holdings in respect of any underwriting or distribution opportunity. In addition, LFCM Holdings will refer opportunities in the Financial Advisory and Asset Management businesses to Lazard Group. In exchange for this referral, LFCM Holdings will be entitled to a customary finders fee from Lazard Group. The business alliance agreement further provides that, during the term of the business alliance, LFNY and Lazard Asset Management Securities LLC, an indirect wholly-owned subsidiary of LFNY, will introduce execution and settlement transactions to broker-dealer entities affiliated with LFCM Holdings. The term of the business alliance will expire on the fifth anniversary of the equity public offering, subject to periodic automatic renewal, unless either party elects to terminate in connection with any such renewal or elects to terminate on account of a change of control of either party.

Amounts recorded by Lazard Group in its consolidated statements of income relating to administrative and support services amounted to $3,769 and $5,322, respectively, for the years ended December 31, 2007 and 2006 and $3,084 for the period May 10, 2005 through December 31, 2005, and shared fees including referral fees for underwriting and private placement transactions amounted to $31,722 and $14,491, respectively, for the years ended December 31, 2007 and 2006, and $6,338 for the period May 10, 2005 through December 31, 2005. Such amounts are reported as reductions to operating expenses and as other revenue, respectively.

In connection with the separation, Lazard Group transferred to LFCM Holdings its ownership interest in Panmure Gordon & Co. plc (PG&C). Lazard Group and LFCM Holdings agreed to share any net cash proceeds, derived prior to May 2013, from any subsequent sale by LFCM Holdings of the shares it owns in PG&C. As a result of LFCM Holdings selling a portion of its interest in PG&C in June, 2007, the Company recorded a gain of $9,296, which is included in revenue other on the consolidated statement of income for the year ended December 31,

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2007. Such amount is included in the receivable from LFCM Holdings as of December 31, 2007 and is due in April, 2008. The above-mentioned transaction resulted in a $4,025 increase in operating income for year ended December 31, 2007. As of December 31, 2007, LFCM Holdings owns 17.5% of PG&C.

The remaining receivables from LFCM Holdings and its subsidiaries as of December 31, 2007 and 2006 primarily include $7,037 and $9,989, respectively, related to the lease indemnity agreement, $5,312 and $3,061, respectively, related to administrative and support services and reimbursement of expenses incurred on behalf of LFCM Holdings and $5,853 and $4,091, respectively, related to referral fees for underwriting transactions. Payables to LFCM Holdings and its subsidiaries at December 31, 2007 and 2006 principally relates to obligations pursuant to the tax receivable agreement described in Note 17 of Notes to Consolidated Financial Statements.

See also Note 2 of Notes to Consolidated Financial Statements for information regarding the Company s Primary and Secondary Offerings in December, 2006, and for which LCM participated as an underwriter. In addition, see Note 13 of Notes to Consolidated Financial Statements for information relating to the Sapphire IPO.

LAZ-MD Holdings

Lazard Group provides selected administrative and support services to LAZ-MD Holdings through the administrative services agreement as discussed above, with such services generally to be provided until December 31, 2014 unless terminated earlier because of a change in control of either party. Lazard Group charges LAZ-MD Holdings for these services based on Lazard Group s cost allocation methodology and, for the years ended December 31, 2007 and 2006 and for the period May 10, 2005 through December 31, 2005, such charges amounted to $1,300, $200 and $145, respectively.

19. REGULATORY AUTHORITIES

LFNY is a U.S. registered broker-dealer and is subject to the net capital requirements of Rule 15c3-1 under the Exchange Act. Under the basic method permitted by this rule, the minimum required net capital, as defined, is a specified fixed percentage of total aggregate indebtedness recorded on LFNY s statement of financial condition, or $5, whichever is greater. At December 31, 2007, LFNY s regulatory net capital was $168,129 which exceeded the minimum requirement by $160,157.

Certain U.K. subsidiaries of the Company, including LCL, Lazard Fund Managers Limited and Lazard Asset Management Limited (the U.K. Subsidiaries) are regulated by the Financial Services Authority. At December 31, 2007, the aggregate regulatory net capital of the U.K. Subsidiaries was $237,768, which exceeded the minimum requirement by $181,451.

CFLF, through which non-corporate finance advisory activities are carried out in France, is subject to regulation by the Commission Bancaire and the Comité des Etablissements de Crédit et des Enterprises d Investissement for its banking activities, conducted through its subsidiary, LFB. In addition, the investment services activities of the Paris group, exercised through LFB and other subsidiaries of CFLF, primarily LFG (asset management) and Fonds Partenaires Gestion (private equity), are subject to regulation and supervision by the Autorité des Marchés Financiers. At December 31, 2007, the consolidated regulatory net capital of CFLF was $189,676, which exceeded the minimum requirement set for regulatory capital levels by $81,954.

Certain other U.S. and non-U.S. subsidiaries are subject to various other capital adequacy requirements promulgated by various regulatory and exchange authorities in the countries in which they operate. At December 31, 2007, for those subsidiaries with regulatory capital requirements, their aggregate net capital was $67,351, which exceeded the minimum required capital by $51,014.

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(dollars in thousands, except for per share data, unless otherwise noted)

At December 31, 2007, each of these subsidiaries individually was in compliance with its regulatory capital requirements.

Over the past several years, European Union financial services regulators have taken steps to institute consolidated supervision over a wide range of financial services companies that conduct business in the European Union, even if their head offices are located outside of the European Union. Under the Financial Conglomerates Directive (2002/87/EC), we, along with a number of our competitors, were required to submit to consolidated supervision by a European Union financial services regulator commencing on January 1, 2005, unless we were already subject to equivalent supervision by another regulator. During 2004, the SEC issued final regulations establishing a consolidated supervision framework for investment banks. Under these regulations, we can voluntarily submit to a stringent framework of rules relating to group-wide capital levels, internal risk management control systems and regulatory reporting requirements. We have elected to become subject to consolidated supervision by the SEC and formally notified the SEC of our intention in December 2004. It is possible that these regulations may ultimately require that we increase our regulatory capital, which may adversely affect our profitability and result in other increased costs. We are currently in the process of formal discussions with the SEC in connection with consolidated supervision matters and expect to be subject to consolidated supervision by the SEC sometime during 2008.

20. SEGMENT OPERATING RESULTS

The Company s reportable segments offer different products and services and are managed separately as different levels and types of expertise are required to effectively manage the segments transactions. Each segment is reviewed to determine the allocation of resources and to assess its performance. Subsequent to May 10, 2005, the Company s principal operating activities are included in two business segments: Financial Advisory which includes providing advice on mergers and acquisitions, restructurings, capital raising and similar transactions, and Asset Management which includes the management of equity and fixed income securities and alternative investment and private equity funds. In addition, the Company records selected other activities in its Corporate segment, including management of cash, certain investments and the commercial banking activities of LFB. The Company also allocates outstanding indebtedness to its Corporate segment.

As discussed in Note 1 of Notes to Consolidated Financial Statements, results of operations are reported as an historical partnership until the equity public offering on May 10, 2005 and do not include payments for services rendered by managing directors as compensation expense and a provision for U.S. federal income taxes. Such payments and tax provisions are included in subsequent periods. Therefore, results for periods prior to the equity public offering on May 10, 2005 and subsequent thereto are not comparable.

The Company s segment information for the years ended December 31, 2007, 2006 and 2005 is prepared using the following methodology:

Revenue and expenses directly associated with each segment are included in determining operating income.

Expenses not directly associated with specific segments are allocated based on the most relevant measures applicable, including headcount, square footage and other factors.

Segment assets are based on those directly associated with each segment, and include an allocation of certain assets relating to various segments, based on the most relevant measures applicable, including headcount, square footage and other factors.

The Company allocates investment gains and losses, interest income and interest expense among the various segments based on the segment in which the underlying asset or liability is reported.

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(dollars in thousands, except for per share data, unless otherwise noted)

Each segment s operating expenses include (i) compensation and benefits expenses incurred directly in support of the businesses and (ii) other operating expenses, which include directly incurred expenses for occupancy and equipment, marketing and business development, technology and information services, professional services, fund administration and outsourced services and indirect support costs (including compensation and other operating expenses related thereto) for administrative services. Such administrative services include, but are not limited to, accounting, tax, legal, facilities management and senior management activities.

There were no clients for the years ended December 31, 2007, 2006 and 2005 that individually constituted more than 10% of the net revenue of either of the Company s business segments.

Management evaluates segment results based on net revenue and operating income and believes that the following information provides a reasonable representation of each segment s contribution to continuing operations with respect to net revenue, operating income and total assets:

		As Of Or For The Year Ended December 31,		
		2007	**2006**	**2005**
Financial Advisory	Net Revenue	$ 1,240,177	$ 973,337	$ 864,812
	Operating Expenses (a)	920,705	722,151	589,024
	Operating Income (b)	$ 319,472	$ 251,186	$ 275,788
	Total Assets	$ 811,752	$ 452,627	$ 336,576
Asset Management	Net Revenue	$ 724,751	$ 553,212	$ 466,188
	Operating Expenses (a)	539,800	418,022	349,801
	Operating Income	$ 184,951	$ 135,190	$ 116,387
	Total Assets	$ 580,716	$ 418,538	$ 308,054
Corporate	Net Revenue	$ (47,239)	$ (32,994)	$ (29,558)
	Operating Expenses (a)	38,889	26,173	20,255
	Operating Income (Loss)	$ (86,128)	$ (59,167)	$ (49,813)
	Total Assets	$ 2,447,945	$ 2,337,500	$ 1,266,267
Total	Net Revenue	$ 1,917,689	$ 1,493,555	$ 1,301,442
	Operating Expenses (a)	1,499,394	1,166,346	959,080

Operating Income	$ 418,295	$ 327,209	$ 342,362
Total Assets	$ 3,840,413	$ 3,208,665	$ 1,910,897

(a) Operating expenses from continuing operations include depreciation and amortization of property as set forth in table below.

	Year Ended December 31,		
	2007	2006	2005
Financial Advisory	$ 4,508	$ 3,311	$ 4,030
Asset Management	2,888	2,525	2,099
Corporate	9,338	8,446	8,649
Total (excluding amounts relating to discontinued operations of $570 in 2005)	$ 16,734	$ 14,282	$ 14,778

(b) Operating income in 2007 excluding amortization of intangible assets related to acquisitions was $340,995.

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(dollars in thousands, except for per share data, unless otherwise noted)

Geographic Information

Due to the highly integrated nature of international financial markets, the Company manages its business based on the profitability of the enterprise as a whole. Accordingly, management believes that profitability by geographic region is not necessarily meaningful. The Company s revenue and identifiable assets are generally allocated based on the country or domicile of the legal entity providing the service.

The following table sets forth the net revenue from, and identifiable assets for, continuing operations of the Company and its consolidated subsidiaries by geographic region allocated on the basis described above.

	As Of Or For The Year Ended December 31, 2007	2006	2005
Net Revenue:			
United States	$ 970,932	$ 775,995	$ 621,428
United Kingdom	275,536	245,409	209,812
France	358,074	267,806	208,393
Other Western Europe	186,270	158,897	197,384
Rest of World	126,877	45,448	64,425
Total	$ 1,917,689	$ 1,493,555	$ 1,301,442
Identifiable Assets:			
United States	$ 1,480,346	$ 985,037	$ 479,577
United Kingdom	352,695	335,953	261,966
France	1,518,606	1,663,523	959,695
Other Western Europe	216,094	160,814	165,794
Rest of World	272,672	63,338	43,865
Total	$ 3,840,413	$ 3,208,665	$ 1,910,897

21. DISCONTINUED OPERATIONS

Operating results from discontinued operations for the year ended December 31, 2005 were as follows:

Net revenue	$ 39,599

Pre-tax loss	$ (14,246)
Provision for income taxes	3,330
Loss from discontinued operations (net of tax)(*)	$ (17,576)

(*) Borne by the members of Lazard Group as such losses were incurred prior to May 10, 2005, the date of the Company s equity public offering and the separation and recapitalization transactions.

22. FAIR VALUE OF FINANCIAL INSTRUMENTS

The majority of the Company s assets and liabilities are recorded at fair value or at amounts that approximate fair value. Such assets and liabilities include cash and cash equivalents, cash and securities segregated for regulatory purposes, investments, derivative instruments, receivables and payables, and other short-term borrowings and payables (also see discussion in Note 3 of Notes to Consolidated Financial Statements).

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Senior and Subordinated Debt The Company s senior and subordinated debt are recorded at historical amounts. The fair value of the Company s senior and subordinated debt was estimated using a discounted cash flow analysis based on the Company s current borrowing rates for similar types of borrowing arrangements or based on market quotations where available. At December 31, 2007 and 2006, the carrying value of the Company s senior and subordinated debt approximated fair value.

SUPPLEMENTAL FINANCIAL INFORMATION

QUARTERLY RESULTS (UNAUDITED)

The following represents the Company s unaudited quarterly results from continuing operations for the years ended December 31, 2007 and 2006. These quarterly results were prepared in conformity with generally accepted accounting principles and reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the results. These adjustments are of a normal recurring nature.

	2007 Fiscal Quarter				
	First	Second	Third	Fourth	Year
	(dollars in thousands, except per share data)				
Net revenue	$369,198	$421,360	$542,048	$585,083	$1,917,689
Operating expenses	290,930	332,197	423,462	452,805	1,499,394
Operating income	$ 78,268	$ 89,163	$118,586	$132,278	$ 418,295
Net income	$ 26,354	$ 29,296	$ 40,267	$ 59,125	$ 155,042
Net income per share of Class A common stock:					
Basic	$.51	$.57	$.79	$1.17	$3.04
Diluted	$.47	$.52	$.73	$1.04	$2.79
Dividends declared per share of Class A common stock	$.09	$.09	$.09	$.09	$.36

	2006 Fiscal Quarter				
	First	Second	Third	Fourth	Year
	(dollars in thousands, except per share data)				
Net revenue	$336,258	$386,908	$297,512	$472,877	$1,493,555
Operating expenses	258,142	302,215	248,319	357,670	1,166,346
Operating income	$ 78,116	$ 84,693	$ 49,193	$115,207	$ 327,209
Net income	$ 19,686	$ 23,545	$ 13,158	$ 36,596	$ 92,985
Net income per share of Class A common stock:					
Basic	$.52	$.63	$.35	$.88	$2.42
Diluted	$.51	$.59	$.34	$.78	$2.31
Dividends declared per share of Class A common stock	$.09	$.09	$.09	$.09	$.36

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

There were no changes in or disagreements with accountants on accounting and financial disclosure during the last two fiscal years.

Item 9A. Controls and Procedures

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act as of December 31, 2007 (the end of the period covered by this annual report on Form 10-K). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this annual report on Form 10-K, our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) are effective, to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

In addition, no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) occurred during our most recent fiscal quarter that has materially affected, or is likely to materially affect, our internal control over financial reporting.

Management s Report on Internal Controls Over Financial Reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act), and the related report of our independent registered public accounting firm, are set forth in Part II, Item 8 of this annual report on Form 10-K and are incorporated herein by reference.

Item 9B. Other Information

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information regarding members of the Board of Directors, including its audit committee and audit committee financial experts, as well as information regarding our Code of Business Conduct and Ethics that applies to our chief executive officer and senior financial officers, will be presented in Lazard Ltd s definitive proxy statement for its 2008 annual general meeting of shareholders, which will be held on May 6, 2008, and is incorporated herein by reference. Information regarding our executive officers is included in Part I of this Form 10-K under the caption Executive Officers of the Registrant.

The information required to be furnished pursuant to this item with respect to compliance with Section 16(a) of the Exchange Act will be set forth under the caption Section 16(a) Beneficial Ownership Reporting Compliance in Lazard Ltd s definitive proxy statement for its 2008 annual general meeting of shareholders, and is incorporated herein by reference.

Item 11. Executive Compensation

Information regarding executive officer and director compensation will be presented in Lazard Ltd s definitive proxy statement for its 2008 annual general meeting of shareholders, which will be held on May 6, 2008, and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information regarding security ownership of certain beneficial owners and management and related shareholder matters will be presented in Lazard Ltd s definitive proxy statement for its 2008 annual general meeting of shareholders, which will be held on May 6, 2008, and is incorporated herein by reference.

Equity Compensation Plan Information

The following table provides information as of December 31, 2007 regarding securities issued under our 2005 Equity Incentive Plan.

	Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the Second Column)
Equity compensation plans approved by security holders	None.			

Equity compensation plans not approved by security holders				
	2005 Equity Incentive Plan[1]	9,543,245[2]	[3]	15,372,333[4]
Total		9,543,245		15,372,333

(1) Our 2005 Equity Incentive Plan was established prior to our equity public offering in May, 2005 and, as a result, did not require approval by security holders.

(2) Represents outstanding stock unit awards, after giving effect to forfeitures, as of December 31, 2007. As of that date, the only grants made under the 2005 Equity Incentive Plan have been in the form of stock unit awards. See Note 14 of Notes to Consolidated Financial Statements for a description of the plan.

(3) Each stock unit awarded under our 2005 Equity Incentive Plan was granted at no cost to the persons receiving them and represent the contingent right to receive the equivalent number of shares of Class A common stock of the Company.

(4) Gives effect to the number of securities remaining available for future issuance, after considering the impact of vested RSUs not delivered as a result of withholding taxes.

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Item 13. Certain Relationships and Related Transactions, and Director Independence

Information regarding certain relationships and related transactions will be presented in Lazard Ltd s definitive proxy statement for its 2008 annual general meeting of shareholders, which will be held on May 6, 2008, and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

Information regarding principal accountant fees and services will be presented in Lazard Ltd s definitive proxy statement for its 2008 annual general meeting of shareholders, which will be held on May 6, 2008, and is incorporated herein by reference.

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PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Documents filed as part of this Report:

1. Consolidated Financial Statements

The consolidated financial statements required to be filed in the annual report on Form 10-K are listed on page F-1 hereof and in Part II, Item 8 hereof.

2. Financial Statement Schedule

The financial statement schedule required in the annual report on Form 10-K is listed on page F-1 hereof. The required schedule appears on pages F-1 through F-8 hereof.

3. Exhibits

2.1	Master Separation Agreement, dated as of May 10, 2005, by and among the Registrant, Lazard Group LLC, LAZ-MD Holdings LLC and LFCM Holdings LLC (incorporated by reference to Exhibit 2.1 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).
2.2	Amendment No. 1, dated as of November 6, 2006, to the Master Separation Agreement, dated as of May 10, 2005, by and among the Registrant, Lazard Group LLC and LAZ-MD Holdings LLC (incorporated by reference to Exhibit 2.2 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on November 7, 2006).
2.3	Class B-1 and Class C Members Transaction Agreement (incorporated by reference to Exhibit 2.2 to the Registrant s Registration Statement (File No. 333-121407) on Form S-1 filed on December 17, 2004).
3.1	Certificate of Incorporation and Memorandum of Association of the Registrant (incorporated by reference to Exhibit 3.1 to the Registrant s Registration Statement (File No. 333-121407) on Form S-1/A filed on March 21, 2005).
3.2	Certificate of Incorporation in Change of Name of the Registrant (incorporated by reference to Exhibit 3.2 to the Registrant s Registration Statement (File No. 333-121407) on Form S-1/A filed on March 21, 2005).
3.3	Amended and Restated Bye-laws of Lazard Ltd (incorporated by reference to Exhibit 3.3 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).
4.1	Form of Specimen Certificate for Class A common stock (incorporated by reference to Exhibit 4.1 to the Registrant s Registration Statement (File No. 333-121407) on Form S-1/A filed on April 11, 2005).
4.2	Indenture, dated as of May 10, 2005, by and between Lazard Group LLC and The Bank of New York, as Trustee (incorporated by reference to Exhibit 4.1 to Lazard Group LLC s Registration Statement (File No. 333-126751) on Form S-4 filed on July 21, 2005).
4.3	Third Supplemental Indenture, dated as of December 19, 2005, by and among Lazard Group LLC, The Bank of New York, as trustee, and for purposes of consent, Lazard Group Finance LLC (incorporated by reference to Exhibit 4.02 to Lazard Group LLC s Current Report on Form 8-K (Commission File No. 333-126751) filed on December 19, 2005).
4.4	Fourth Supplemental Indenture, dated as of June 21, 2007, between Lazard Group LLC and The Bank of New York, as trustee (incorporated by reference to Exhibit 4.1 to the Registrant s Current Report on Form 8-K (File No. 001-32492) filed on June 22, 2007).

4.5	Registration Rights Agreement, dated as of June 21, 2007, among Lazard Group LLC, Goldman, Sachs & Co., Citigroup Global Markets Inc. and J.P. Morgan Securities Inc., as representatives for the Initial Purchasers (incorporated by reference to Exhibit 4.2 to the Registrant s Current Report on Form 8-K (File No. 001-32492) filed on June 22, 2007).

4.6	Purchase Contract Agreement, dated as of May 10, 2005, by and between the Registrant and The Bank of New York, as Purchase Contract Agent (incorporated by reference to Exhibit 4.4 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).
4.7	Pledge Agreement, dated as of May 10, 2005, by and among the Registrant, The Bank of New York, as Collateral Agent, Custodial Agent and Securities Intermediary and The Bank of New York, as Purchase Contract Agent (incorporated by reference to Exhibit 4.5 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).
4.8	Pledge Agreement, dated as of May 10, 2005, by and among Lazard Group Finance LLC, The Bank of New York, as Collateral Agent, Custodial Agent and Securities Intermediary and The Bank of New York, as Trustee (incorporated by reference to Exhibit 4.6 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).
4.9	Form of Normal Equity Security Units Certificate (included in Exhibit 4.4).
4.10	Form of Stripped Equity Security Units Certificate (included in Exhibit 4.4).
4.11	Form of Senior Note (included in Exhibit 4.3).
10.1	Amended and Restated Stockholders Agreement, dated as of November 6, 2006, by and among LAZ-MD Holdings LLC, the Registrant and certain members of LAZ-MD Holdings LLC (incorporated by reference to Exhibit 10.1 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on November 7, 2006).
10.2	Operating Agreement of Lazard Group LLC, dated as of May 10, 2005 (incorporated by reference to Exhibit 10.2 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).
10.3	Amendment No. 1 to the Operating Agreement of Lazard Group LLC, dated as of December 19, 2005 (incorporated by reference to Exhibit 3.01 to Lazard Group LLC s Current Report on Form 8-K (File No. 333-126751) filed on December 19, 2005).
10.4	Tax Receivable Agreement, dated as of May 10, 2005, by and among Ltd Sub A, Ltd Sub B and LFCM Holdings LLC (incorporated by reference to Exhibit 10.3 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).
10.5	Employee Benefits Agreement, dated as of May 10, 2005, by and among the Registrant, Lazard Group LLC, LAZ-MD Holdings LLC and LFCM Holdings LLC (incorporated by reference to Exhibit 10.4 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).
10.6	Insurance Matters Agreement, dated as of May 10, 2005, by and between Lazard Group LLC and LFCM Holdings LLC (incorporated by reference to Exhibit 10.5 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).
10.7	License Agreement, dated as of May 10, 2005, by and among Lazard Strategic Coordination Company, LLC, Lazard Frères & Co. LLC, Lazard Frères S.A.S., Lazard & Co. Holdings Limited and LFCM Holdings LLC (incorporated by reference to Exhibit 10.6 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).
10.8	Administrative Services Agreement, dated as of May 10, 2005, by and among LAZ-MD Holdings LLC, LFCM Holdings LLC and Lazard Group LLC (incorporated by reference to Exhibit 10.7 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).
10.9	Business Alliance Agreement, dated as of May 10, 2005, by and between Lazard Group LLC and LFCM Holdings LLC (incorporated by reference to Exhibit 10.8 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).
10.10	First Amended and Restated Limited Liability Company Agreement of Lazard Asset Management LLC, dated as of January 10, 2003 (incorporated by reference to Exhibit 10.10 to the Registrant s Registration Statement (File No. 333-121407) on Form S-1/A filed on February 11, 2005).

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10.11	Amended and Restated Operating Agreement of Lazard Strategic Coordination Company LLC, dated as of January 1, 2002 (incorporated by reference to Exhibit 10.16 to the Registrant s Registration Statement (File No. 333-121407) on Form S-1/A filed on February 11, 2005).
10.12	Lease, dated as of January 27, 1994, by and between Rockefeller Center Properties and Lazard Frères & Co. LLC (incorporated by reference to Exhibit 10.19 to the Registrant s Registration Statement (File No. 333-121407) on Form S-1/A filed on February 11, 2005).
10.13	Lease with an Option to Purchase, dated as of July 11, 1990, by and between Sicomibail and Finabail and SCI du 121 Boulevard Hausmann (English translation) (incorporated by reference to Exhibit 10.20 to the Registrant s Registration Statement (File No. 333-121407) on Form S-1/A filed on February 11, 2005).
10.14	Occupational Lease, dated as of August 9, 2002, Burford (Stratton) Nominee 1 Limited, Burford (Stratton) Nominee 2 Limited, Burford (Stratton) Limited, Lazard & Co., Limited and Lazard LLC (incorporated by reference to Exhibit 10.21 to the Registrant s Registration Statement (File No. 333-121407) on Form S-1/A filed on February 11, 2005).
10.15*	2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.21 to the Registrant s Registration Statement (File No. 333-121407) on Form S-1/A filed on May 2, 2005).
10.16*	2005 Bonus Plan (incorporated by reference to Exhibit 10.23 to the Registrant s Registration Statement (File No. 333-121407) on Form S-1/A filed on March 21, 2005).
10.17*	Amended and Restated Agreement Relating to Retention and Noncompetition and Other Covenants, dated as of January 29, 2008, by and among Lazard Ltd, Lazard Group LLC and Bruce Wasserstein (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report (File No. 001-32492) on Form 8-K filed on February 1, 2008).
10.18*	Agreement Relating to Reorganization of Lazard, dated as of May 10, 2005, by and among Lazard LLC and Bruce Wasserstein (incorporated by reference to Exhibit 10.24 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).
10.19*	Agreement Relating to Retention and Noncompetition and Other Covenants, dated as of May 4, 2005, by and among the Registrant, Lazard Group LLC and Steven J. Golub (incorporated by reference to Exhibit 10.25 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).
10.20*	Form of Agreement Relating to Retention and Noncompetition and Other Covenants, dated as of May 4, 2005, applicable to, and related Schedule I for, each of Michael J. Castellano, Scott D. Hoffman and Charles G. Ward III (incorporated by reference to Exhibit 10.26 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).
10.21*	Agreements Relating to Retention and Noncompetition and Other Covenants (incorporated by reference to Exhibit 10.27 to the Registrant s Registration Statement (File No. 333-121407) on Form S-1/A filed on April 11, 2005).
10.22*	Amended and Restated Letter Agreement, effective as of January 1, 2004, between Vernon E. Jordan, Jr. and Lazard Frères & Co. LLC (incorporated by reference to Exhibit 10.28 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).
10.23*	Acknowledgement Letter, dated as of November 6, 2006 from Lazard Group LLC to certain managing directors of Lazard Group LLC modifying the terms of the retention agreements of persons party to the Amended and Restated Stockholders Agreement, dated as of November 6, 2006 (incorporated by reference to Exhibit 10.23 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on November 7, 2006).
10.24	Letter Agreement, dated as of March 15, 2005, from IXIS Corporate and Investment Bank to Lazard LLC and Lazard Ltd (incorporated by reference to Exhibit 10.27 to the Registrant s Registration Statement (File No. 333-121407) on Form S-1/A filed on March 21, 2005).

10.25 Registration Rights Agreement, dated as of May 10, 2005 by and among Lazard Group Finance LLC, the Registrant, Lazard Group LLC and IXIS Corporate and Investment Bank (incorporated by reference to Exhibit 10.30 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).

10.26 Letter Agreement, dated as of May 10, 2005, with Bruce Wasserstein family trusts (incorporated by reference to Exhibit 10.31 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).

10.27 Senior Revolving Credit Agreement, dated as of May 10, 2005, among Lazard Group LLC, the Banks from time to time parties thereto, Citibank, N.A., The Bank of New York, New York Branch, JP Morgan Chase Bank, N.A. and JP Morgan Chase Bank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.32 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).

10.28 First Amendment, dated as of March 28, 2006, to the Senior Revolving Credit Agreement, dated as of May 10, 2005, among Lazard Group LLC, the Banks from time to time parties thereto, Citibank, N.A., The Bank of New York, New York Branch, JP Morgan Chase Bank, N.A. and JP Morgan Chase Bank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.34 to Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on May 11, 2006).

10.29 Second Amendment, dated as of May 17, 2006, to the Senior Revolving Credit Agreement, dated as of May 10, 2005, among Lazard Group LLC, the Banks from time to time parties thereto, Citibank, N.A., The Bank of New York, New York Branch, JP Morgan Chase Bank, N.A. and JP Morgan Chase Bank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8- K (File No. 001-32492) filed on May 17, 2006).

10.30 Third Amendment, dated as of June 18, 2007, to the Senior Revolving Credit Agreement, dated as of May 10, 2005, among Lazard Group LLC, the Banks from time to time parties thereto, Citibank, N.A., The Bank of New York, New York Branch, JP Morgan Chase Bank, N.A. and JP Morgan Chase Bank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K (File No. 001-32492) filed on June 22, 2007).

10.31* Description of Non-Executive Director Compensation (incorporated by reference to Exhibit 10.33 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q for the quarter ended June 30, 2005).

10.32* Form of Award Letter for Annual Grant of Deferred Stock Units to Non-Executive Directors (incorporated by reference to Exhibit 99.1 to the Registrant s Current Report on Form 8-K (File No. 001-32492) filed on September 8, 2005).

10.33* Form of Agreement evidencing a grant of Restricted Stock Units to Executive Officers under the Lazard Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K (File No. 001-32492 filed on January 26, 2006).

10.34* Description of Non-Executive Director Compensation (incorporated by reference to

Exhibit 10.33 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q for the quarter ended June 30, 2005).

10.35* Form of Award Letter for Annual Grant of Deferred Stock Units to Non-Executive Directors (incorporated by reference to Exhibit 99.1 to the Registrant s Current Report on Form 8-K (File No. 001-32492) filed on September 8, 2005).

10.36* Form of Agreement evidencing a grant of Restricted Stock Units to Executive Officers under the Lazard Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K (File No. 001-32492) filed on January 26, 2006).

10.37 Termination Agreement dated as of March 31, 2006, by and among Banca Intesa S.p.A., Lazard Group LLC, and Lazard & Co. S.r.l. (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K (File No. 001-32492) filed on April 4, 2006).

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10.38	Amended and Restated $150 Million Subordinated Convertible Promissory Note due 2018, issued by Lazard Funding LLC to Banca Intesa S.p.A. (incorporated by reference to Exhibit 10.3 to the Registrant s Current Report on Form 8-K (File No. 001-32492) filed on May 17, 2006).
10.39	Amended and Restated Guaranty of Lazard Group LLC to Banca Intesa S.p.A., dated as of May 15, 2006 (incorporated by reference to Exhibit 10.4 to the Registrant s Current Report on Form 8-K (File No. 001-32492) filed on May 17, 2006).
10.40*	Directors Fee Deferral Unit Plan (incorporated by reference to Exhibit 10.39 to Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on May 11, 2006).
10.41*	First amended Form of Agreement evidencing a grant of Restricted Stock Units to Executive Officers under the Lazard 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.43 to Registrant s Annual Report (File No. 001-32492) on Form 10-K filed on March 1, 2007).
12.1	Computation of Ratio of Earnings to Fixed Charges.
14.1	Registrant s Code of Conduct and Ethics (incorporated by reference to Exhibit 14.1 to the Registrant s Annual Report on Form 10-K (File No. 001-32492) filed on March 21, 2006).
21.1	Subsidiaries of Registrant.
23.1	Consent of Independent Registered Public Accounting Firm.
31.1	Rule 13a-14(a) Certification of Bruce Wasserstein.
31.2	Rule 13a-14(a) Certification of Michael J. Castellano.
32.1	Section 1350 Certification for Bruce Wasserstein.
32.2	Section 1350 Certification for Michael J. Castellano.

* Management contract or compensatory plan or arrangement.

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LAZARD LTD

INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

ITEMS 15 (a)(1) AND 15 (a)(2)

Schedules not listed above have been omitted because the information required to be set forth therein is not applicable or is shown in the consolidated financial statements or notes thereto.

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LAZARD LTD

(parent company only)

CONDENSED STATEMENTS OF FINANCIAL CONDITION

DECEMBER 31, 2007 AND 2006

(dollars in thousands, except per share data)

	December 31, 2007	December 31, 2006
ASSETS		
Cash and cash equivalents	$ 123	$ 13
Investments in subsidiaries, equity basis	(1,109,930)	(1,340,229)
Due from subsidiaries	1,181,442	1,103,077
Other assets	9	
Total assets	$ 71,644	$ (237,139)
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIENCY)		
Liabilities:		
Due to subsidiaries	$ 87	$ 17
Other liabilities	1,218	3,197
Total liabilities	1,305	3,214
Commitments and contingencies		
STOCKHOLDERS EQUITY (DEFICIENCY)		
Preferred stock, par value $.01 per share; 15,000,000 shares authorized:		
Series A 36,607 shares issued and outstanding at December 31, 2007		
Series B 277 shares issued and outstanding at December 31, 2007		
Common stock:		
Class A, par value $.01 per share (500,000,000 shares authorized; 51,745,825 and 51,554,068 shares issued at December 31, 2007 and 2006, respectively, including shares held by a subsidiary as indicated below)	517	516
Class B, par value $.01 per share (1 share authorized, 1 share issued and outstanding at December 31, 2007 and 2006)		
Additional paid-in-capital	(161,924)	(396,792)
Retained earnings	248,551	127,608
Accumulated other comprehensive income, net of tax	52,491	32,494
	139,635	(236,174)
Less Class A common stock held by a subsidiary, at cost (1,712,846 and 115,000 shares at December 31, 2007 and 2006, respectively)	(69,296)	(4,179)
Total stockholders equity (deficiency)	70,339	(240,353)
Total liabilities and stockholders equity (deficiency)	$ 71,644	$ (237,139)

See notes to condensed financial statements.

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LAZARD LTD

(parent company only)

CONDENSED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

(dollars in thousands)

	Years Ended December 31,		
	2007	**2006**	**2005**
REVENUE			
Equity in earnings of subsidiaries	$ 109,644	$ 62,616	$ 124,569(*)
Interest income	46,607	31,491	19,756
Total revenue	156,251	94,107	144,325
Interest expense	129	252	217
Net revenue	156,122	93,855	144,108
OPERATING EXPENSES			
Professional services	941	785	393
Other	139	85	229
Total operating expenses	1,080	870	622
NET INCOME (NET INCOME ALLOCABLE TO MEMBERS OF LAZARD GROUP PRIOR TO MAY 10, 2005)	$ 155,042	$ 92,985	$ 143,486(*)

(*) Excludes, as applicable, with respect to the period ended prior to May 10, 2005 (a) payments for services rendered by Lazard Group s managing directors, which, as a result of Lazard Group operating as a limited liability company, historically had been accounted for as distributions from members capital, or in some cases as minority interest, rather than as compensation and benefits expense, and (b) U.S. corporate federal income taxes, since Lazard Group has operated in the U.S. as a limited liability company that was treated as a partnership for U.S. federal income tax purposes.

See notes to condensed financial statements.

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LAZARD LTD

(parent company only)

CONDENSED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

(dollars in thousands)

	Years Ended December 31,		
	2007	**2006**	**2005**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (net income allocable to members of Lazard Group prior to May 10, 2005)	$ 155,042	$ 92,985	$ 143,486
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Noncash transactions in net income (net income allocable to members of Lazard Group prior to May 10, 2005):			
Equity in earnings of subsidiaries	(109,644)	(62,616)	(124,569)
Dividends received from subsidiaries			335,419
Amortization of stock units	821	549	253
Increase in due to/from subsidiaries	(25,813)	(245,518)	(797,398)
Changes in other operating assets and liabilities	(1,988)	(1,961)	(473)
Net cash provided by (used in) operating activities	18,418	(216,561)	(443,282)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital contributed to subsidiaries		(119,133)	(232,524)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Equity in capital transactions of subsidiaries			2,213,447
Proceeds from issuance of Class A common stock in December, 2006 and May, 2005, net of expenses of $16,512 and $65,844, respectively		349,137	871,656
Proceeds from issuance of Class B common stock			1
Costs related to issuance of purchase contracts associated with equity security units			(12,086)
Distributions to members and capital withdrawals			(418,412)
Purchase contracts relating to equity security units			(6,013)
Settlement of interest rate hedge			(11,003)
Redemption of historical partner interests (including mandatorily redeemable preferred stock of $100,000)			(1,617,032)
Distribution of separated business			(243,178)
Distributions to LAZ-MD Holdings and LFCM Holdings			(150,000)
Indemnity from LFCM Holdings relating to U.K. pension			53,600
Class A common stock dividends	(18,308)	(13,480)	(5,325)
Net cash provided by (used in) financing activities	(18,308)	335,657	675,655
Net increase (decrease) in cash and cash equivalents	110	(37)	(151)
Cash and cash equivalents, January 1	13	50	201
Cash and cash equivalents, December 31	$ 123	$ 13	$ 50

See notes to condensed financial statements.

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LAZARD LTD

(parent company only)

CONDENSED STATEMENTS OF CHANGES IN MEMBERS EQUITY AND

STOCKHOLDERS EQUITY (DEFICIENCY)

FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

(dollars in thousands)

		Preferred Stock											
	Members Equity	Series A Shares	Series A $	Series B Shares	Series B $	Common Stock Shares(*)	Common Stock $	Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Income, Net of Tax	Class A Common Stock Held By A Subsidiary Shares	Class A Common Stock Held By A Subsidiary $	Total Members Equity and Stockholders Equity (Deficiency)
Balance January 1, 2005	**$ 366,740**									**$ 18,058**			**$ 384,798**
Comprehensive income (loss):													
Net income allocable to members for the period January 1, 2005 through May 9, 2005	89,175												89,175
Net income available for Class A common stockholders for the period May 10, 2005 through December 31, 2005									$ 54,311				54,311
Net income for the period January 1, 2005 through December 31, 2005													143,486
Other comprehensive income (loss) net of tax:													
Currency translation adjustments										(46,552)			(46,552)
Interest rate hedge, net of amortization										(10,297)			(10,297)
Minimum pension liability adjustments										4,449			4,449
Comprehensive income													91,086
Distribution of net assets of separated businesses	(243,178)												(243,178)
Indemnity from LFCM Holdings relating to U.K. pension	53,600												53,600
Net proceeds from issuance of Class A common stock in equity public offering, including $32,921 issued in cashless exchange						37,500,000	$ 375	$871,281					871,656

Issuance of Class B common stock				1		1			1
Distributions and withdrawals to members	(418,412)								(418,412)
Redemption of historical partner interests	(1,517,032)								(1,517,032)
Costs related to issuance of purchase contracts associated with equity security units						(12,086)			(12,086)
Purchase contracts associated with equity security units						(6,013)			(6,013)
Distributions to LAZ-MD Holdings and LFCM Holdings	(150,000)								(150,000)
Reclassification to additional paid-in capital	1,819,107					(1,819,107)			
Class A common stock dividends							(5,325)		(5,325)
Lazard Group repurchase of common membership interest from LAZ-MD Holdings						(4,507)			(4,507)
Amortization and issuance of stock units						1,277			1,277
Adjustment to reclassify minority interest share of undistributed net income for the period May 10, 2005 through December 31, 2005 to additional paid-in-capital						83,464			83,464
Balance December 31, 2005	**$**	**$**	**$**	**37,500,001**	**$ 375**	**$ (885,690)**	**$ 48,986**	**$ (34,342)**	**$ (870,671)**

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LAZARD LTD

(parent company only)

CONDENSED STATEMENTS OF CHANGES IN MEMBERS EQUITY AND

STOCKHOLDERS EQUITY (DEFICIENCY)

FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

(dollars in thousands)

	Preferred Stock Series A		Preferred Stock Series B		Common Stock		Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Income, Net of Tax	Class A Common Stock Held By A Subsidiary		Total Stockholders Equity (Deficiency)
	Shares	$	Shares	$	Shares(*)	$				Shares	$	
Balance - December 31, 2005		**$**		**$**	**37,500,001**	**$ 375**	**$ (885,690)**	**$ 48,986**	**$ (34,342)**		**$**	**$ (870,671)**
Comprehensive income:												
Net income								92,985				92,985
Other comprehensive income - net of tax:												
Currency translation adjustments									50,299			50,299
Amortization of interest rate hedge									1,100			1,100
Minimum pension liability adjustments									13,683			13,683
Comprehensive income												158,067
Adoption of FASB Statement No. 158									1,754			1,754
Amortization and issuance of stock units							23,545					23,545
Conversion of DSUs to Class A common stock					3,668							
RSU dividend-equivalents							883	(883)				
Class A common stock dividends								(13,480)				(13,480)
Purchase of Class A common stock by a subsidiary										115,000	(4,179)	(4,179)
Net proceeds from issuance of Class A common stock in Primary Offering, including issuance of 6,000,000 shares in Secondary Offering					14,050,400	141	348,996					349,137
Other capital transactions							4,510					4,510
Adjustment to reclassify minority interest share of undistributed net income to additional paid-in-capital							110,964					110,964
Balance - December 31, 2006					**51,554,069**	**516**	**(396,792)**	**127,608**	**32,494**	**115,000**	**(4,179)**	**(240,353)**
Adjustment for the cumulative effect on prior years from the adoption of FIN No. 48								(13,221)				(13,221)
Balance, as adjusted - January 1, 2007					**51,554,069**	**516**	**(396,792)**	**114,387**	**32,494**	**115,000**	**(4,179)**	**(253,574)**

Comprehensive income (loss):										
Net income						155,042				155,042
Other comprehensive income (loss) - net of tax:										
Currency translation adjustments							23,426			23,426
Amortization of interest rate hedge							1,100			1,100
Net unrealized loss on available-for-sale securities							(670)			(670)
Employee benefit plans:										
Net actuarial (loss)							(3,440)			(3,440)
Adjustment for items reclassified to earnings							(419)			(419)
Comprehensive income										175,039
Preferred stock and Class A common stock issued/issuable in connection with acquisitions and related amortization	36,607 $	277 $			54,404					54,404
Issuances of Class A common stock in exchange for Lazard Group common membership interests			191,757	1	(1)					
Repurchase of common membership interest from LAZ-MD Holdings					(21,840)					(21,840)
Amortization of stock units					105,586					105,586
RSU dividend-equivalents					2,570	(2,570)				
Class A common stock dividends						(18,308)				(18,308)
Purchase of Class A common stock by a subsidiary								1,678,600	(68,052)	(68,052)
Lazard Group delivery of Class A common stock for settlement of vested RSUs					(2,956)			(80,754)	2,935	(21)
Adjustment to reclassify minority interest share of undistributed net income to additional paid-in-capital					97,105					97,105
Balance December 31, 2007	**36,607 $**	**277 $**	**51,745,826**	**$ 517**	**$ (161,924)**	**$ 248,551**	**$ 52,491**	**1,712,846**	**$ (69,296)**	**$ 70,339**

(*) Includes 51,745,825, 51,554,068 and 37,500,000 shares of the Company s Class A common stock issued at December 31, 2007, 2006 and 2005, respectively, and 1 share of the Company s Class B common stock at each such date.

See notes to condensed financial statements.

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LAZARD LTD

(parent company only)

NOTES TO CONDENSED FINANCIAL STATEMENTS

(dollars in thousands)

1. BASIS OF PRESENTATION

The accompanying Lazard Ltd condensed financial statements (the Parent Company Financial Statements), including the notes thereto, should be read in conjunction with the consolidated financial statements of Lazard Ltd and its subsidiaries (the Company) and the notes thereto.

The Parent Company Financial Statements as of December 31, 2007 and 2006 and for each of the three years in the period ended December 31, 2007 are prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP), which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenue and expenses, and the disclosures in the condensed financial statements. Management believes that the estimates utilized in the preparation of the condensed financial statements are reasonable. Actual results could differ materially from these estimates.

The Parent Company Financial Statements include investments in subsidiaries, accounted for under the equity method.

The accompanying condensed statements of financial condition as of December 31, 2007 and 2006 reflects the financial condition of Lazard Ltd. The accompanying condensed statements of income, cash flows and changes in members equity and stockholders equity (deficiency) for the years ended December 31, 2007 and 2006 reflect the operating results, cash flows and changes in equity of Lazard Ltd. The accompanying condensed statements of income, cash flows and changes in members equity and stockholders equity (deficiency) for the year ended December 31, 2005 reflect the operating results, cash flows and changes in equity of Lazard Group prior to May 10, 2005, and, from May 10, 2005 through December 31, 2005, reflect the operating results, cash flows and changes in equity of Lazard Ltd.

The accompanying condensed financial statements do not reflect what the results of operations and financial position of Lazard Ltd would have been had it been a stand-alone, public company prior to May 10, 2005. In addition, the Parent Company s equity in earnings of subsidiaries and its results of operations for the period until the equity public offering on May 10, 2005 are not comparable to results of operations for subsequent periods as described below.

Payments for services rendered by the Company s managing directors, which, as a result of Lazard Group operating as a limited liability company, historically had been accounted for as distributions from members capital, or in some cases as minority interest, rather than as compensation and benefits expense. As a result, prior to May 10, 2005, Lazard Group s operating income included within the accompanying Parent Company Financial Statements did not reflect payments for services rendered by its managing directors. For periods subsequent to the consummation of the equity public offering as described in Note 1 of Notes to Consolidated Financial Statements, the Parent Company Financial Statements include all payments for services rendered by our managing directors and distributions to profit participation members within equity in earnings of subsidiaries in the accompanying condensed statements of income.

The Company s income has not been subject to U.S. corporate federal income taxes, because Lazard Group operated in the U.S. as a limited liability company that was treated as a partnership for U.S. federal income tax purposes. As a result, Lazard Group s income had not been subject to U.S. corporate federal income taxes. Taxes related to income earned by partnerships represent obligations of the individual partners. Outside the U.S., Lazard Group historically had operated principally through subsidiary corporations and had been subject to local income taxes. Prior to May 10, 2005, income taxes reflected within Lazard Group s results of operations are attributable to taxes incurred in non-U.S. entities and to New York City Unincorporated Business Tax (UBT) attributable to Lazard Group s

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LAZARD LTD

(parent company only)

NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

(dollars in thousands)

operations apportioned to New York City. Subsequent to the equity public offering, the results of operations of the Company include the U.S. corporate federal income taxes on its allocable share of the results of operations of Lazard Group, giving effect to the post equity public offering structure.

Commencing May 10, 2005, the consolidated statements of income include a minority interest in net income to reflect LAZ-MD Holdings ownership interest of Lazard Group s common membership interests. Prior to May 10, 2005, there was no such minority interest in net income, as Lazard Ltd had no interest in Lazard Group and all net income prior to that date was allocable to the then members of Lazard Group. As of December 31, 2007, 2006 and 2005, LAZ-MD Holdings ownership interest in Lazard Group was approximately 51.7%, 52.1% and 62.4%, respectively.

The use of proceeds from the financing transactions.

The net incremental interest expense related to the financing transactions.

2. MANDATORILY REDEEMABLE PREFERRED STOCK

In 2001, Lazard Group issued mandatorily redeemable preferred stock (Class C Preferred Interests) for an aggregate amount of $100,000. The Class C Preferred Interests were subject to mandatory redemption by Lazard Group in March 2011 and, prior to such date, were redeemable in whole or in part, at the Lazard Group s option. The Class C Preferred Interests were entitled to receive distributions out of the profits of the Company at a rate of 8% per annum, which distributions were required to be paid prior to any distributions of profits to holders of any other existing class of interests in Lazard Group. The Class C Preferred Interests were redeemed in May 2005 as part of the recapitalization transactions. Interest on mandatorily redeemable preferred stock for the year ended December 31, 2005 of ($8,000) is included in interest expense in the accompanying condensed statement of income, which represents accrued dividends which were cancelled in connection with the redemption of membership interests of historical partners.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: February 28, 2008

LAZARD LTD

By: /s/ Bruce Wasserstein

Bruce Wasserstein
Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

Signature	Capacity	Date
/s/ Bruce Wasserstein	Chairman, Chief Executive Officer and Director	February 28, 2008
Bruce Wasserstein	(*Principal Executive Officer*)	
/s/ Michael J. Castellano	Chief Financial Officer	February 28, 2008
Michael J. Castellano	(*Principal Financial and Accounting Officer*)	
/s/ Ronald J. Doerfler	Director	February 28, 2008
Ronald J. Doerfler		
/s/ Steven J. Heyer	Director	February 28, 2008
Steven J. Heyer		
/s/ Sylvia Jay	Director	February 28, 2008
Sylvia Jay		
/s/ Ellis Jones	Director	February 28, 2008
Ellis Jones		

/s/ Vernon E. Jordan, Jr. Vernon E. Jordan, Jr.	Director	February 28, 2008
/s/ Anthony Orsatelli Anthony Orsatelli	Director	February 28, 2008
/s/ Hal S. Scott Hal S. Scott	Director	February 28, 2008
/s/ Michael J. Turner Michael J. Turner	Director	February 28, 2008

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Stock-based compensation

1,838 1,838 1,838

Comprehensive income:

Net income (loss)

(456,660) (456,660) 58,235 (398,425)

Other comprehensive income, net of tax

Unrealized gains on securities

14,546 14,546 6,011 20,557

Unrealized gains on derivative instruments

539 539 539

Pension liability adjustment

(34,668) (34,668) 1,495 (33,173)

Foreign currency translation adjustments

(18,306) (18,306) 395 (17,911)

Total comprehensive income (loss)				(494,549)	66,136	(428,413)		
Stock issue costs, net of tax	(1)	(1)	(1)					
Dividends declared	(25,090)	(25,090)	(7,760)	(32,850)				
Purchase of treasury stock	(79)	(79)	(79)					
Reissuance of treasury stock	(61)	112	51	51				
Transactions with noncontrolling interests shareholders and other	(1,270)	(1,270)	14,083	12,813				
Balance at March 31, 2012	630,923	1,160,236	1,084,462	(842,093)	(4,637)	2,028,891	461,216	2,490,107

(Continued on following page.)

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SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Changes in Stockholders Equity (Continued)

	Yen in millions							
	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Treasury stock, at cost	Sony Corporation s stockholders equity	Noncontrolling interests	Total equity
Balance at March 31, 2012	630,923	1,160,236	1,084,462	(842,093)	(4,637)	2,028,891	461,216	2,490,107
Exercise of stock acquisition rights							109	109
Stock-based compensation		851				851		851
Comprehensive income:								
Net income			43,034			43,034	61,142	104,176
Other comprehensive income, net of tax								
Unrealized gains on securities				42,179		42,179	24,665	66,844
Unrealized gains on derivative instruments				308		308		308
Pension liability adjustment				(4,983)		(4,983)	(1,640)	(6,623)
Foreign currency translation adjustments				163,076		163,076	(1,258)	161,818
Total comprehensive income						243,614	82,909	326,523
Stock issue costs, net of tax			(18)			(18)		(18)
Dividends declared			(25,181)			(25,181)	(9,195)	(34,376)
Purchase of treasury stock					(35)	(35)		(35)
Reissuance of treasury stock		(155)			200	45		45
Transactions with noncontrolling interests shareholders and other		(50,401)				(50,401)	(51,627)	(102,028)
Balance at March 31, 2013	630,923	1,110,531	1,102,297	(641,513)	(4,472)	2,197,766	483,412	2,681,178

The accompanying notes are an integral part of these statements.

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SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES

Index to Notes to Consolidated Financial Statements

Sony Corporation and Consolidated Subsidiaries

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SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Financial Statements

Sony Corporation and Consolidated Subsidiaries

1. *Nature of operations*

Sony Corporation and its consolidated subsidiaries (hereinafter collectively referred to as Sony) are engaged in the development, design, manufacture, and sale of various kinds of electronic equipment, instruments, and devices for consumer, professional and industrial markets as well as game consoles and software. Sony s primary manufacturing facilities are located in Asia including Japan. Sony also utilizes third-party contract manufacturers for certain products. Sony s products are marketed throughout the world by sales subsidiaries and unaffiliated distributors as well as direct sales via the Internet. Sony is engaged in the development, production and acquisition, manufacture, marketing, distribution and broadcasting of image-based software, including motion picture, home entertainment and television product. Sony is also engaged in the development, production, manufacture, and distribution of recorded music. Further, Sony is also engaged in various financial services businesses, including life and non-life insurance operations through its Japanese insurance subsidiaries and banking operations through a Japanese Internet-based banking subsidiary. In addition to the above, Sony is engaged in a network services business and an advertising agency business in Japan.

2. *Summary of significant accounting policies*

The accompanying consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Certain adjustments and reclassifications have been incorporated in the accompanying consolidated financial statements to conform with U.S. GAAP. These adjustments were not recorded in the statutory books and records as Sony Corporation and its subsidiaries in Japan maintain their records and prepare their statutory financial statements in accordance with accounting principles generally accepted in Japan while its foreign subsidiaries maintain their records and prepare their financial statements in conformity with accounting principles generally accepted in the countries of their domiciles.

(1) Significant accounting policies:

Basis of consolidation and accounting for investments in affiliated companies -

The consolidated financial statements include the accounts of Sony Corporation and its majority-owned subsidiary companies, general partnerships and other entities in which Sony has a controlling interest, and variable interest entities for which Sony is the primary beneficiary. All intercompany transactions and accounts are eliminated. Investments in business entities in which Sony does not have control, but has the ability to exercise significant influence over operating and financial policies, generally through 20-50% ownership, are accounted for under the equity method. In addition, investments in general partnerships in which Sony does not have a controlling interest and limited partnerships are also accounted for under the equity method if more than minor influence over the operation of the investee exists (generally through more than 3-5% ownership). When the interest in the partnership is so minor that Sony has no significant influence over the operation of the investee, the cost method is used. Under the equity method, investments are stated at cost plus/minus Sony s portion of equity in undistributed earnings or losses. Sony s equity in current earnings or losses of such entities is reported net of income taxes and is included in operating income (loss) after the elimination of unrealized intercompany profits. If the value of an investment has declined and is judged to be other-than-temporary, the investment is written down to its estimated fair value.

On occasion, a consolidated subsidiary or an affiliated company accounted for by the equity method may issue its shares to third parties in either a public or private offering or upon conversion of convertible debt to common stock at amounts per share in excess of or less than Sony s average per share carrying value. With respect to such transactions, the resulting gains or losses arising from the change in interest are recorded in earnings for the year the change in interest transaction occurs.

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SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES

Gains or losses that result from a loss of a controlling financial interest in a subsidiary are recorded in earnings along with fair value remeasurement gains or losses on any retained investment in the entity, while a change in interest of a consolidated subsidiary that does not result in a change in control is accounted for as a capital transaction and no gains or losses are recorded in earnings.

The excess of the cost over the underlying net equity of investments in consolidated subsidiaries and affiliated companies accounted for on an equity basis is allocated to identifiable tangible and intangible assets and liabilities based on fair values at the date of acquisition. The unassigned residual value of the excess of the cost over Sony s underlying net equity is recognized as goodwill as a component of the investment balance.

Use of estimates -

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect 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. The most significant estimates include those used in determining the valuation of investment securities, valuation of inventories, fair values of long-lived assets, fair values of goodwill, intangible assets and assets and liabilities assumed in business combinations, product warranty liability, pension and severance plans, valuation of deferred tax assets, uncertain tax positions, film costs, and insurance related liabilities. Actual results could differ from those estimates.

Translation of foreign currencies -

All asset and liability accounts of foreign subsidiaries and affiliates are translated into Japanese yen at appropriate fiscal year end exchange rates and all income and expense accounts are translated at exchange rates that approximate those rates prevailing at the time of the transactions. The resulting translation adjustments are accumulated as a component of accumulated other comprehensive income. Upon remeasurement of a previously held equity interest in accordance with the accounting guidance for business combinations achieved in stages, accumulated translation adjustments, if any, remain as a component of accumulated other comprehensive income as there has not been sale or complete or substantially complete liquidation of the net investment.

Receivables and payables denominated in foreign currencies are translated at appropriate fiscal year end exchange rates and the resulting translation gains or losses are recognized into income.

Cash and cash equivalents -

Cash and cash equivalents include all highly liquid investments, with original maturities of three months or less, that are readily convertible to known amounts of cash and are so near maturity that they present insignificant risk of changes in value because of changes in interest rates.

Marketable debt and equity securities -

Debt and equity securities designated as available-for-sale, whose fair values are readily determinable, are carried at fair value with unrealized gains or losses included as a component of accumulated other comprehensive income, net of applicable taxes. Debt and equity securities classified as trading securities are carried at fair value with unrealized gains or losses included in income. Debt securities that are expected to be held-to-maturity are carried at amortized cost. Individual securities classified as either available-for-sale or held-to-maturity are reduced to fair value by a charge to income for other-than-temporary declines in fair value. Realized gains and losses are determined on the average cost method and are reflected in income.

Sony regularly evaluates its investment portfolio to identify other-than-temporary impairments of individual securities. Factors that are considered by Sony in determining whether an other-than-temporary decline in value

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SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES

has occurred include: the length of time and extent to which the market value of the security has been less than its original cost, the financial condition, operating results, business plans and estimated future cash flows of the issuer of the security, other specific factors affecting the market value, deterioration of the credit condition of the issuers, sovereign risk, and whether or not Sony is able to retain the investment for a period of time sufficient to allow for the anticipated recovery in market value.

In evaluating the factors for available-for-sale securities whose fair values are readily determinable, Sony presumes a decline in value to be other-than-temporary if the fair value of the security is 20 percent or more below its original cost for an extended period of time (generally for a period of up to six months). This criterion is employed as a threshold to identify securities which may have a decline in value that is other-than-temporary. The presumption of an other-than-temporary impairment in such cases may be overcome if there is evidence to support that the decline is temporary in nature due to the existence of other factors which overcome the duration or magnitude of the decline. On the other hand, there may be cases where impairment losses are recognized when the decline in the fair value of the security is not more than 20 percent or such decline has not existed for an extended period of time, as a result of considering specific factors which may indicate the decline in the fair value is other-than-temporary.

When an other-than-temporary impairment of a debt security has occurred, the amount of the other-than-temporary impairment recognized in income depends on whether Sony intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost. If the debt security meets either of these two criteria, the other-than-temporary impairment is recognized in income, measured as the entire difference between the security s amortized cost and its fair value at the impairment measurement date. For other-than-temporary impairments of debt securities that do not meet these two criteria, the net amount recognized in income is a credit loss equal to the difference between the amortized cost of the debt security and its net present value calculated by discounting Sony s best estimate of projected future cash flows at the effective interest rate implicit in the debt security prior to impairment. Any difference between the fair value and the net present value of the debt security at the impairment measurement date is recorded in accumulated other comprehensive income. Unrealized gains or losses on securities for which an other-than-temporary impairment has been recognized in income are presented as a separate component of accumulated other comprehensive income.

Equity securities in non-public companies -

Equity securities in non-public companies are primarily carried at cost if fair value is not readily determinable. If the carrying value of a non-public equity investment is estimated to have declined and such decline is judged to be other-than-temporary, Sony recognizes the impairment of the investment and the carrying value is reduced to its fair value. Determination of impairment is based on the consideration of several factors, including operating results, business plans and estimated future cash flows. Fair value is determined through the use of various methodologies such as discounted cash flows, valuation of recent financings and comparable valuations of similar companies.

Allowance for doubtful accounts -

Sony maintains an allowance for doubtful accounts to reserve for potentially uncollectible receivables. Sony reviews accounts receivable by amounts due by customers which are past due to identify specific customers with known disputes or collectability issues. In determining the amount of the reserve, Sony makes judgments about the creditworthiness of customers based on past collection experience and ongoing credit risk evaluations.

Inventories -

Inventories in the Imaging Products & Solutions (IP&S), Game, Mobile Products & Communications (MP&C), Home Entertainment & Sound (HE&S), Devices and Music segments as well as non-film

SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES

inventories for the Pictures segment are valued at cost, not in excess of market, cost being determined on the average cost basis except for the cost of finished products carried by certain subsidiary companies which is determined on the first-in, first-out basis. The market value of inventory is determined as the net realizable value - i.e., estimated selling price in the ordinary course of business less predictable costs of completion and disposal. Sony does not consider a normal profit margin when calculating the net realizable value.

Other receivables -

Other receivables include receivables which relate to arrangements with certain component manufacturers whereby Sony procures goods, including product components, for these component manufacturers and is reimbursed for the related purchases. No revenue or profit is recognized on these transfers. Sony usually will repurchase the inventory at a later date from the component manufacturers as either finished goods inventory or as partially assembled product.

Film costs -

Film costs include direct production costs, production overhead and acquisition costs for both motion picture and television productions and are stated at the lower of unamortized cost or estimated fair value and classified as noncurrent assets. Film costs are amortized and the estimated liabilities for residuals and participations are accrued using an individual-film-forecast method based on the ratio of current period actual revenues to the estimated remaining total revenues. Film costs also include broadcasting rights which consist of acquired programming to be aired on Sony s worldwide channel network and are recognized when the license period begins and the program is available for use. Broadcasting rights are stated at the lower of unamortized cost or net realizable value, classified as either current or noncurrent assets based on timing of expected use, and amortized based on estimated usage or on a straight-line basis over the useful life, as appropriate. Estimates used in calculating the fair value of the film costs and the net realizable value of the broadcasting rights are based upon assumptions about future demand and market conditions and are reviewed on a periodic basis.

Property, plant and equipment and depreciation -

Property, plant and equipment are stated at cost. Depreciation is computed using the straight-line method. Useful lives for depreciation range from two to 50 years for buildings and from two to 10 years for machinery and equipment. Significant renewals and additions are capitalized at cost. Maintenance and repairs, and minor renewals and betterments are charged to income as incurred.

Effective April 1, 2012, Sony Corporation and its Japanese subsidiaries changed the depreciation method for property, plant and equipment, except for certain semiconductor manufacturing facilities and buildings whose depreciation is computed on the straight-line method, from the declining-balance method to the straight-line method. Concurrently, estimated useful lives for certain assets were also changed. Sony believes that the straight-line method better reflects the pattern of consumption of the estimated future benefits to be derived from those assets being depreciated and provides a better matching of costs and revenues over the assets estimated useful lives.

In accordance with the accounting guidance for a change in accounting estimate effected by a change in accounting principle, a change in depreciation method is treated on a prospective basis as a change in estimate and prior period results have not been restated. The net effect of the changes caused a decrease in depreciation expense of 8,985 million yen for the fiscal year ended March 31, 2013, which is primarily included in cost of sales in the consolidated statements of income. Net income attributable to Sony Corporation s stockholders, basic net income per share attributable to Sony Corporation s stockholders and diluted net income per share attributable to Sony Corporation s stockholders increased by 8,034 million yen, 7.99 yen and 7.50 yen, respectively, for the fiscal year ended March 31, 2013.

SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES

Goodwill and other intangible assets -

Goodwill and certain other intangible assets that are determined to have an indefinite useful life are not amortized and are tested annually for impairment during the fourth quarter of the fiscal year and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value below its carrying amount. In assessing goodwill for impairment, Sony has the option to first perform a qualitative assessment to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Reporting units are Sony s operating segments or one level below the operating segments. If Sony determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, no additional tests to assess goodwill for impairment are required to be performed. However, if Sony concludes otherwise or elects not to perform the qualitative assessment, then it is required to perform the first step of a two-step impairment review process. In the fiscal year ended March 31, 2013, Sony elected not to perform the aforementioned qualitative assessment of goodwill and instead proceeded directly to the first step of the quantitative impairment test.

The first step of the two-step process involves a comparison of the estimated fair value of a reporting unit to its carrying amount to identify potential impairment. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired and the second step of the impairment test is not performed. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of the reporting unit s goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit s goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. Fair value of reporting units and indefinite lived intangible assets is generally determined using a discounted cash flow analysis. This approach uses significant estimates and assumptions including projected future cash flows, the timing of such cash flows, discount rates reflecting the risk inherent in future cash flows, perpetual growth rates, determination of appropriate comparable entities and the determination of whether a premium or discount should be applied to comparables. In addition to the estimates of future cash flows, two of the most significant estimates involved in the determination of fair value of the reporting units are the discount rates and perpetual growth rate applied to terminal values used in the discounted cash flow analysis. The discount rates used in the cash flow models for the goodwill impairment testing consider market and industry data as well as specific risk factors for each reporting unit. The perpetual growth rates for the individual reporting units, for purposes of the terminal value determination, are generally set after an initial three-year forecasted period, although certain reporting units utilized longer forecasted periods, and are based on historical experience, market and industry data.

When a business within a reporting unit is disposed of, goodwill is allocated to the disposed business using the relative fair value method.

Intangible assets with finite useful lives mainly consist of patent rights, know-how, license agreements, customer relationships, trademarks, software to be sold, leased or otherwise marketed, music catalogs, artist contracts and television carriage agreements (broadcasting agreements). Patent rights, know-how, license agreements, trademarks and software to be sold, leased or otherwise marketed are generally amortized on a straight-line basis, generally, over three to eight years. Customer relationships, music catalogs, artist contracts and television carriage agreements (broadcasting agreements) are amortized on a straight-line basis, generally, over 10 to 40 years.

Software to be sold, leased, or marketed -

Sony accounts for software development costs in accordance with accounting guidance for the costs of software to be sold, leased, or marketed. The costs related to establishing the technological feasibility of a software product are expensed as incurred as a part of research and development in cost of sales. Costs that are incurred to produce the finished product after technological feasibility is established are capitalized and

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amortized to cost of sales over the estimated economic life, which is generally three years. The technological feasibility of game software is established when the product master is completed. Consideration to capitalize game software development costs before this point is limited to the development costs of games for which technological feasibility can be proven at an earlier stage. At each balance sheet date, Sony performs reviews to ensure that unamortized capitalized software costs remain recoverable from future profits of the related software products.

Deferred insurance acquisition costs -

Costs that vary with and are directly related to acquiring new insurance policies are deferred as long as they are recoverable. The deferred insurance acquisition costs include such items as commissions, medical examination costs and inspection report fees, and are subject to recoverability testing at least annually to ensure that the capitalized amounts do not exceed the present value of anticipated gross profits or premiums less benefits and maintenance expenses, as applicable. The deferred insurance acquisition costs for traditional life insurance contracts are amortized over the premium-paying period of the related insurance policies using assumptions consistent with those used in computing policy reserves. The deferred insurance acquisition costs for non-traditional life insurance contracts are amortized over the expected life in proportion to the estimated gross profits.

Product warranty -

Sony provides for the estimated cost of product warranties at the time revenue is recognized. The product warranty is calculated based upon product sales, estimated probability of failure and estimated cost per claim. The variables used in the calculation of the provision are reviewed on a periodic basis.

Certain subsidiaries in the IP&S, MP&C and HE&S segments offer extended warranty programs. The consideration received for extended warranty service is deferred and recognized as revenue on a straight-line basis over the term of the extended warranty.

Future insurance policy benefits -

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, mortality, withdrawals and other factors. These assumptions are reviewed on a periodic basis. Liabilities for future insurance policy benefits also include liabilities for guaranteed benefits related to certain non-traditional life and annuity contracts.

Policyholders account in the life insurance business -

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 balance sheet date. This liability is generally equal to the accumulated account deposits, plus interest credited, less policyholder withdrawals and other charges assessed against the account balances.

Impairment of long-lived assets -

Sony reviews the recoverability of the carrying value of its long-lived assets held and used, other than goodwill and intangible assets with indefinite lives, and assets to be disposed of, whenever events or changes in circumstances indicate that the individual carrying amount of an asset or asset group may not be recoverable. Long-lived assets to be held and used are reviewed for impairment by comparing the carrying value of the asset or asset group with their estimated undiscounted future cash flows. If the cash flows are determined to be less than the carrying value of the asset or asset group, an impairment loss has occurred and the loss would be recognized during the period for the difference between the carrying value of the asset or asset group and

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estimated fair value. Long-lived assets that are to be disposed of other than by sale are considered held and used until they are disposed of. Long-lived assets that are to be disposed of by sale are reported at the lower of their carrying value or fair value less cost to sell and are not depreciated. Fair value is determined using the present value of estimated net cash flows or comparable market values. This approach uses significant estimates and assumptions including projected future cash flows, the timing of such cash flows, discount rates reflecting the risk inherent in future cash flows, perpetual growth rates applied to determine terminal values, determination of appropriate market comparables and the determination of whether a premium or discount should be applied to comparables.

Fair value measurement -

Sony measures fair value as an exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date.

The accounting guidance for fair value measurements specifies a hierarchy of inputs to valuation techniques based on the extent to which inputs used in measuring fair value are observable in the market. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect Sony s assumptions about the assumptions that market participants would use in pricing the asset or liability. Observable market data is used if such data is available without undue cost and effort. 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. These levels are:

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, such as quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations, in which all significant inputs are observable in active markets.
Level 3	One or more significant inputs are unobservable.

When available, Sony uses unadjusted quoted market prices in active markets to measure fair value and classifies such items within level 1. If quoted market prices are not available, fair value is based upon internally developed valuation techniques that use, where possible, current market-based or independently sourced market parameters, such as interest rates, currency rates and option volatilities. Items valued using internally generated models are classified according to the lowest level input that is significant to the valuation. For certain financial assets and liabilities, Sony determines fair value using third-party information such as indicative quotes from dealers and quantitative input from investment advisors following Sony s established valuation procedures including validation against internally developed prices. Additionally, Sony considers both counterparty credit risk and Sony s own creditworthiness in determining fair value. Sony attempts to mitigate credit risk to third parties by entering into netting agreements and actively monitoring the creditworthiness of counterparties and its exposure to credit risk through the use of credit limits and by selecting major international banks and financial institutions as counterparties.

Transfers between levels are deemed to have occurred at the beginning of the each interim period in which the transfers occur.

Derivative financial instruments -

All derivatives are recognized as either assets or liabilities in the consolidated balance sheets at fair value. Changes in the fair value of derivative financial instruments are either recognized periodically in income or stockholders equity (as a component of accumulated 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.

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The accounting guidance for hybrid financial instruments permits an entity to elect fair value remeasurement for any hybrid financial instrument if the hybrid instrument contains an embedded derivative that would otherwise be required to be bifurcated and accounted for separately under accounting guidance for derivative instruments and hedging activities. The election to measure the hybrid instrument at fair value is made on an instrument-by-instrument basis and is irreversible. Certain subsidiaries in the Financial Services segment have hybrid financial instruments, disclosed in Note 7 as debt securities, that contain embedded derivatives where the entire instrument is carried at fair value.

In accordance with accounting guidance for derivative instruments and hedging activities, various derivative financial instruments held by Sony are classified and accounted for as described below.

Fair value hedges

Changes in the fair value of derivatives designated and effective as fair value hedges for recognized assets or liabilities or unrecognized firm commitments are recognized in earnings as offsets to changes in the fair value of the related hedged assets or liabilities.

Cash flow hedges

Changes in the fair value of derivatives designated and 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 into earnings when the hedged transaction affects earnings. Changes in the fair value of the ineffective portion are recognized in current period earnings.

Derivatives not designated as hedges

Changes in the fair value of derivatives that are not designated as hedges are recognized in current period earnings.

Assessment of hedges

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 fair value or cash flow hedges to specific assets or liabilities on the consolidated balance sheets or to the specific forecasted transactions. Sony also assesses, both at the inception of the hedge and on an on-going basis, whether the derivatives that are designated as hedges are highly effective in offsetting changes in fair value or cash flows of hedged items. When it is determined that a derivative is not highly effective as a hedge, Sony discontinues hedge accounting. Hedge ineffectiveness, if any, is included in the current period earnings.

Stock-based compensation -

Sony accounts for stock-based compensation using the fair value based method, measured on the date of grant using the Black-Scholes option-pricing model. The expense is mainly included in selling, general and administrative expenses. Stock-based compensation is recognized, net of an estimated forfeiture rate, over the requisite service period using the accelerated method of amortization for grants with graded vesting. The estimated forfeiture rate is based on Sony s historical experience in the stock acquisition rights plans where the majority of the vesting terms have been satisfied.

Revenue recognition -

Revenues from sales in the IP&S, Game, MP&C, HE&S, Devices and Music segments are recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the sales price is fixed or determinable, and collectability is reasonably assured. Delivery is considered to have occurred

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when the customer has taken title to the product and the risks and rewards of ownership have been substantively transferred. If the sales contract contains a customer acceptance provision, then sales are recognized after customer acceptance occurs or the acceptance provisions lapse. Revenues are recognized net of anticipated returns and sales incentives.

Revenue arrangements with customers may include multiple elements, including any combination of products, services and software. An example includes sales of electronics products with rights to receive promotional goods. For Sony s multiple element arrangements where at least one of the elements is not subject to existing software revenue recognition guidance, elements are separated into more than one unit of accounting when the delivered element(s) have value to the customer on a standalone basis, and delivery of the undelivered element(s) is probable and substantially in the control of Sony. Revenue is then allocated to each unit of accounting based on the relative selling price of each unit of accounting based first on vendor-specific objective evidence of selling price (VSOE) if it exists, based next on third-party evidence of selling price (TPE) if VSOE does not exist, and, finally, if both VSOE and TPE do not exist, based on estimated selling prices (ESP). VSOE is limited to either the price charged for an element when it is sold separately or, for an element not yet being sold separately, the price established by management having the relevant authority; it must be probable that the price, once established, will not change before the separate introduction of the element into the market place. TPE is the price of Sony s or any competitor s largely interchangeable products or services in standalone sales to similarly situated customers. ESP is the price at which Sony would transact if the element were sold by Sony regularly on a standalone basis. When determining ESP, Sony considers all relevant inputs, including sales, cost and margin analysis of the product, targeted rate of return of the product, competitors and Sony s pricing practices and customer perspectives.

Certain software products published by Sony provide limited on-line features at no additional cost to the customer. Generally, such features are considered to be incidental to the overall software product and an inconsequential deliverable. Accordingly, revenue related to software products containing these limited on-line features is not deferred. In instances where the software products on-line features or additional functionality is considered a substantive deliverable in addition to the software product, revenue and costs of sales are recognized ratably over an estimated service period, which is estimated to be six months.

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 product are recorded when the product is available for exploitation by the licensee and when any restrictions regarding the use of the product lapse. Revenues from the sale of DVDs and Blu-ray Disc, net of anticipated returns and sales incentives, are recognized upon availability of sale to the public. Revenues from the sale of broadcast advertising are recognized when the advertisement is aired. Revenues from subscription fees received by the television networks are recognized when the service is provided.

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, single payment juvenile 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.

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Consideration given to a customer or a reseller -

Sales incentives or other cash consideration given to a customer or a reseller including payments for buydowns, slotting fees and cooperative advertising programs, are accounted for as a reduction of revenue unless Sony receives an identifiable benefit (goods or services) in exchange for the consideration, the fair value of the benefit is reasonably estimated and documentation from the reseller is received to support the amounts paid to the reseller. Payments meeting these criteria are recorded as selling, general and administrative expenses. For the fiscal years ended March 31, 2011, 2012 and 2013, consideration given to a reseller, primarily for free promotional shipping and cooperative advertising programs included in selling, general and administrative expenses totaled 23,250 million yen, 17,641 million yen and 14,643 million yen, respectively.

Cost of sales -

Costs classified as cost of sales relate to the producing and manufacturing of products and include items such as material cost, subcontractor cost, depreciation of fixed assets, amortization of intangible assets, personnel expenses, research and development costs, and amortization of film costs related to motion picture and television product.

Research and development costs -

Research and development costs, included in cost of sales, include items such as salaries, personnel expenses and other direct and indirect expenses associated with research and product development. Research and development costs are expensed as incurred.

Selling, general and administrative -

Costs classified as selling expense relate to promoting and selling products and include items such as advertising, promotion, shipping, and warranty expenses. General and administrative expenses include operating items such as officers salaries, personnel expenses, depreciation of fixed assets, office rental for sales, marketing and administrative divisions, a provision for doubtful accounts and amortization of intangible assets.

Financial services expenses -

Financial services expenses include a provision for policy reserves and amortization of deferred insurance acquisition costs, and all other operating costs such as personnel expenses, depreciation of fixed assets, and office rental of subsidiaries in the Financial Services segment.

Advertising costs -

Advertising costs are expensed when the advertisement or commercial appears in the selected media.

Shipping and handling costs -

The majority of shipping and handling, warehousing and internal transfer costs for finished goods are included in selling, general and administrative expenses. An exception to this is in the Pictures segment where such costs are charged to cost of sales as they are an integral part of producing and distributing films. All other costs related to Sony s distribution network are included in cost of sales, including inbound freight charges, purchasing and receiving costs, inspection costs and warehousing costs for raw materials and in-process inventory. Amounts paid by customers for shipping and handling costs are included in net sales.

Income taxes -

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income, and the tax liability attributed to undistributed earnings of subsidiaries and affiliated

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companies accounted for by the equity method expected to be remitted in the foreseeable future. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities.

Carrying amounts of deferred tax assets require a reduction by a valuation allowance if, based on the available evidence, it is more likely than not that such assets will not be realized. Accordingly, the need to establish valuation allowances for deferred tax assets is assessed periodically with appropriate consideration given to all positive and negative evidence related to the realization of the deferred tax assets. Management s judgments related to this assessment consider, among other matters, 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.

Sony records assets and liabilities for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. Sony continues to recognize interest and penalties, if any, with respect to income taxes, including unrecognized tax benefits, as interest expense and as income tax expense, respectively, in the consolidated statements of income. The amount of income taxes Sony pays is subject to ongoing audits by various taxing authorities, which may result in proposed assessments. In addition, several significant items related to intercompany transfer pricing are currently the subject of negotiations between taxing authorities in different jurisdictions as a result of pending advance pricing agreement applications. Sony s estimate for the potential outcome for any uncertain tax issues is judgmental and requires significant estimates. Sony assesses its income tax positions and records tax benefits for all years subject to examinations based upon the evaluation of the facts, circumstances and information available at that reporting date. For those tax positions for which it is more likely than not that a tax benefit will be sustained, Sony records the amount that has a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. If Sony does not believe that it is more likely than not that a tax benefit will be sustained, no tax benefit is recognized. However, Sony s future results may include favorable or unfavorable adjustments to Sony s estimated tax liabilities due to closure of income tax examinations, the outcome of negotiations between taxing authorities in different jurisdictions, new regulatory or judicial pronouncements or other relevant events. As a result, the amount of unrecognized tax benefits, and the effective tax rate, may fluctuate significantly.

Net income (loss) attributable to Sony Corporation s stockholders per share (EPS) -

Basic EPS is computed based on the weighted-average number of shares of common stock outstanding during each period. The computation of diluted EPS reflects the maximum possible dilution from conversion, exercise, or contingent issuance of securities. All potentially dilutive securities are excluded from the calculation in a situation where there is a net loss attributable to Sony Corporation s stockholders.

(2) Recently adopted accounting pronouncements:

Accounting for costs associated with acquiring or renewing insurance contracts -

In October 2010, the Financial Accounting Standards Board (FASB) issued new accounting guidance for costs associated with acquiring or renewing insurance contracts. Under the new guidance, acquisition costs are to include only those costs that are directly related to the acquisition or renewal of insurance contracts by applying a model similar to the accounting for loan origination costs. Entities may defer incremental direct costs of contract acquisitions that are incurred in transactions with independent third parties or employees as well as the portion of employee compensation and other costs directly related to underwriting, policy issuance and processing, medical inspection, and contract selling for successfully negotiated contracts. Additionally, entities may capitalize as a deferred acquisition cost only those advertising costs meeting the capitalization criteria for direct-response

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advertising. This guidance was effective for Sony as of April 1, 2012. Sony applied this guidance prospectively from the date of adoption. The adoption of this guidance did not have a material impact on Sony s results of operations and financial position.

Presentation of comprehensive income -

In June 2011, the FASB issued new accounting guidance for the presentation of comprehensive income. The amendments require entities to report components of comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements. This change is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and is applied retrospectively. The guidance was effective for Sony as of April 1, 2012. Since this guidance impacts disclosures only, its adoption did not have an impact on Sony s results of operations and financial position.

Testing goodwill for impairment -

In September 2011, the FASB issued new accounting guidance to simplify how entities test goodwill for impairment. The new guidance allows entities an option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining if it is necessary to perform the two-step quantitative goodwill impairment test. Under the new guidance, entities are no longer required to calculate the fair value of a reporting unit unless the entities determine, based on the qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The new guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. This guidance was effective for Sony as of April 1, 2012. The adoption of this guidance did not have a material impact on Sony s results of operations and financial position.

Impairment of unamortized film costs -

In October 2012, the FASB issued new accounting guidance for the impairment of unamortized film costs. The new guidance has the effect of incorporating into the impairment analysis of unamortized film costs only information that was known or knowable as of the balance sheet date, consistent with how information is incorporated into other fair value measurements. This guidance was effective for Sony for impairment assessments performed on or after December 15, 2012. Sony applied this guidance prospectively from the date of adoption. The adoption of this guidance did not have a material impact on Sony s results of operations and financial position.

(3) Recent accounting pronouncements not yet adopted:

Disclosure about balance sheet offsetting -

In December 2011, the FASB issued new accounting guidance which requires entities to disclose information about offsetting and related arrangements to enable financial statement users to understand the effect of such arrangements on the statement of financial position as well as to improve comparability of balance sheets prepared under U.S. GAAP and IFRS. The new guidance is required to be applied retrospectively and is effective for Sony as of April 1, 2013. Subsequently, in January 2013, the FASB issued updated accounting guidance of clarifying the scope of disclosures about offsetting assets and liabilities. Since this guidance impacts disclosures only, its adoption will not have an impact on Sony s results of operations and financial position.

Testing indefinite lived intangible assets for impairment -

In July 2012, the FASB issued new accounting guidance to simplify how entities test indefinite lived intangible assets for impairment. The new guidance allows entities an option to first assess a qualitative factors to determine whether it is more likely than not indefinite lived intangible assets is impaired as a basis for

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determining if it is necessary to perform the quantitative impairment test. Under the new guidance, entities are no longer required to calculate the fair value of the assets unless the entities determine, based on the qualitative assessment, that it is more likely than not that indefinite lived intangible assets is impaired. The new guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. This guidance is effective for Sony as of April 1, 2013. The adoption of this guidance is not expected to have a material impact on Sony s results of operations and financial position.

Presentation of amounts reclassified out of accumulated other comprehensive income -

In February 2013, the FASB issued new accounting guidance for reporting of amounts reclassified out of accumulated other comprehensive income. The amendments require entities to report the significant reclassifications out of accumulated other comprehensive income if the amount is required to be reclassified in its entirety to net income. For other amounts that are not required to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required that provide additional detail about those amounts. This guidance is effective for Sony as of April 1, 2013. Sony will apply this guidance prospectively from the date of adoption. Since this guidance impacts disclosure only, its adoption will not have an impact on Sony s results of operations and financial position.

Obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date -

In February 2013, the FASB issued new accounting guidance for obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. This guidance requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date, as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors, plus any additional amount the reporting entity expects to pay on behalf of its co-obligors. The new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. This guidance is effective for Sony as of April 1, 2014. Sony is currently evaluating the impact of adopting this guidance.

Parent s accounting for the cumulative translation adjustment upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity -

In March 2013, the FASB issued new accounting guidance for the parent s accounting for the cumulative translation adjustment upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. This new guidance resolved diversity in practice and clarifies the applicable guidance for the release of the cumulative translation adjustment when the parent sells a part or all of its investment in a foreign entity, ceases to have a controlling financial interest in a subsidiary or group of assets that is a business within a foreign entity, or obtains control in a business combination achieved in stages involving an equity method investment that is a foreign entity. After adoption of this guidance, any accumulated translation adjustments associated with a previously held equity interest, will be included in earnings in a business combination achieved in stages. This guidance is effective for Sony as of April 1, 2014. Sony will apply this guidance prospectively from the date of adoption. The effect of this guidance will depend on the nature and significance of transactions after the adoption date.

(4) Reclassifications:

Certain reclassifications of the financial statements and accompanying footnotes for the fiscal years ended March 31, 2011 and 2012 have been made to conform to the presentation for the fiscal year ended March 31, 2013.

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(5) Out of period adjustments:

In the first quarter of the fiscal year ended March 31, 2012, Sony recorded an out of period adjustment to correct an error in the calculation of indirect taxes at a subsidiary. The indirect tax calculation error began in 2005 and continued until it was identified by Sony in the first quarter of the fiscal year ended March 31, 2012. The adjustment, which primarily related to the HE&S segment, impacted net sales, selling, general and administrative expenses and interest expenses and, in the aggregate, increased loss before income taxes in consolidated statements of income by 4,413 million yen for the fiscal year ended March 31, 2012. Sony determined that the adjustment was not material to the consolidated financial statements for any prior annual or interim periods and for the fiscal year ended March 31, 2012.

3. *Inventories*

Inventories are comprised of the following:

	Yen in millions March 31	
	2012	2013
Finished products	498,430	489,519
Work in process	88,236	85,631
Raw materials, purchased components and supplies	120,386	134,904
	707,052	710,054

4. *Film costs*

Film costs are comprised of the following:

	Yen in millions March 31	
	2012	2013
Motion picture productions:		
Released	98,910	90,716
Completed and not released	10,800	2,420
In production and development	102,295	111,365
Television productions:		
Released	44,461	49,651
In production and development	2,853	2,820
Broadcasting rights	27,830	37,189
Less: current portion of broadcasting rights included in inventories	(17,101)	(24,072)
Film costs	270,048	270,089

Sony estimates that approximately 87% of the unamortized costs of released films at March 31, 2013 will be amortized within the next three years. Approximately 67 billion yen of completed film costs are expected to be amortized during the next twelve months. Approximately 104 billion yen of accrued participation liabilities included in accounts payable, other and accrued expenses are expected to be paid during the next twelve months.

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5. *Related party transactions*

Sony accounts for its investments in affiliated companies over which Sony has significant influence under the equity method. In addition, investments in general partnerships in which Sony does not have a controlling interest and limited partnerships are also accounted for under the equity method if more than minor influence over the operation of the investee exists (generally through more than 3-5% ownership).

During fiscal year ended March 31, 2012, Sony Corporation acquired the remaining interests in Sony Ericsson Mobile Communications AB (Sony Ericsson) and sold all of its shares of S-LCD Corporation (S-LCD), both of which were considered significant equity affiliates. There are no remaining individually significant investments following these transactions.

The summarized combined financial information that is based on information provided by the equity investees including information for significant equity affiliates and the reconciliation of such information to the consolidated financial statements is shown below:

Balance Sheets

	Yen in millions March 31	
	2012	**2013**
Current assets	167,786	254,606
Noncurrent assets	168,143	513,104
Current liabilities	93,535	205,749
Noncurrent liabilities and noncontrolling interests	79,513	308,410
Percentage of ownership in equity investees	20%-50%	20%-50%

Statements of Income

	Yen in millions Fiscal year ended March 31, 2011			
	Sony Ericsson	**S-LCD**	**Others**	**Total**
Net revenues	673,464	807,955	268,604	1,750,023
Operating income (loss)	16,453	12,527	17,630	46,610
Other income (expense), net	(1,572)	(4,119)		
Income (loss) before income taxes	14,881	8,408		
Income tax (expense) benefit	(6,065)	3,094		
Net income (loss) attributable to noncontrolling interests	(520)			
Net income (loss) attributable to controlling interests	8,296	11,502	8,895	28,693
Percentage of ownership in equity investees	50%	50%	20%-50%	
Equity in net income (loss) of affiliated companies, before consolidating and reconciling adjustments	4,148	5,751		
Consolidating and reconciling adjustments:				
Other	7	1,463		
Equity in net income (loss) of affiliated companies	4,155	7,214	2,693	14,062

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	Yen in millions Fiscal year ended March 31, 2012			
	Sony Ericsson	S-LCD	Others	Total
Net revenues	475,898	146,002	123,610	745,510
Operating income (loss)	(44,239)	(4,644)	5,247	(43,636)
Other income (expense), net	4,504	(3,098)		
Income (loss) before income taxes	(39,735)	(7,742)		
Income tax (expense) benefit	(73,054)	(374)		
Net income (loss) attributable to noncontrolling interests	(2,729)			
Net income (loss) attributable to controlling interests	(115,518)	(8,116)	950	(122,684)
Percentage of ownership in equity investees	50%	50%	20%-50%	
Equity in net income (loss) of affiliated companies, before consolidating and reconciling adjustments	(57,759)	(4,058)		
Consolidating and reconciling adjustments:				
Impairment loss including translation adjustments		(60,019)		
Other	79	(1)		
Equity in net income (loss) of affiliated companies	(57,680)	(64,078)	61	(121,697)

	Yen in millions Fiscal year ended March 31, 2013
Net revenues	193,405
Operating income (loss)	(14,759)
Net income (loss) attributable to controlling interests	(26,026)
Percentage of ownership in equity investees	20%-50%

Sony Ericsson, a 50/50 joint venture with Telefonaktiebolaget LM Ericsson (Ericsson) focused on mobile phone handsets, was established in October 2001 and was included in affiliated companies accounted for under the equity method through February 15, 2012. On February 15, 2012, Sony Corporation acquired Ericsson s 50 percent stake in Sony Ericsson, making the mobile handset business a wholly-owned subsidiary of Sony Corporation. Refer to Note 24.

S-LCD, a joint venture with Samsung Electronics Co., Ltd. (Samsung) focused on manufacturing amorphous TFT panels, was established in April 2004 with Sony s ownership interest of 50% minus 1 share. S-LCD was strategic to Sony s television business as it provided a source of high quality large screen LCD panels to differentiate Sony s Bravia LCD televisions. In June 2011, S-LCD decreased its capital stock by 0.6 trillion Korean won and Sony received a cash distribution of 22,100 million yen from S-LCD. However, LCD panel and television market conditions became increasingly challenging and in order to respond to the situation and to strengthen their respective market competitiveness, Sony and Samsung agreed to shift to a new LCD panel business alliance in December 2011. As a result of this agreement, on January 19, 2012, Sony sold to Samsung all of its shares of S-LCD, and received cash consideration of 71,986 million yen (1.07 trillion Korean won) from Samsung. Following the transaction S-LCD was no longer an equity affiliate. During the fiscal year ended March 31, 2012, Sony recorded a 60,019 million yen other-than-temporary impairment loss on its share of S-LCD, including the reclassification to net income of foreign currency translation adjustments and the impact of exchange rate fluctuations between the initial impairment loss and closing of the sale to Samsung. Cash proceeds from the sale of the investment in S-LCD are included in sales of securities investments in the consolidated statements of cash flows.

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On June 29, 2012, an investor group which included a wholly owned subsidiary of Sony Corporation completed its acquisition of EMI Music Publishing. To effect the acquisition, the investor group formed DH Publishing, L.P. (DHP) which acquired EMI Music Publishing for total consideration of 2.2 billion U.S. dollars. Sony invested 320 million U.S. dollars in DHP, through Nile Acquisition LLC, for a 39.8% equity interest. Nile Acquisition LLC is a joint venture with the third party investor of Sony s U.S. based music publishing subsidiary in which Sony holds a 74.9% ownership interest. In addition, DHP entered into an agreement with Sony s U.S. based music publishing subsidiary in which the subsidiary provides administration services to DHP. Sony accounts for its interest in DHP under the equity method. DHP was determined to be a variable interest entity as described in Note 23.

On February 25, 2013, Sony sold 95,000 shares of its 886,908 shares of M3, Inc. (M3), a consolidated subsidiary of Sony, to a third party for cash consideration of 14,236 million yen, which is included within other in the investing activities section of the consolidated statements of cash flows. In connection with the sale, Sony recorded a gain of 122,160 million yen in other operating (income) loss, net in the consolidated statements of income for the fiscal year ended March 31, 2013. Of this gain, 117,216 million yen relates to the remeasurement to fair value, using M3 s closing stock price on the date of the sale, of the remaining 791,908 shares of M3 (49.8% of the issued and outstanding shares of M3) that Sony continues to own after the sale in accordance with the accounting guidance for deconsolidation of a subsidiary. Sony will remain a major shareholder of M3 and will continue to pursue opportunities to collaborate with M3 in certain business areas, including medical. Sony accounts for its remaining interest in M3 under the equity method.

The carrying value of Sony s investment in M3 exceeded its proportionate share in the underlying net assets of M3 by 117,014 million yen at March 31, 2013. The excess is substantially attributable to the remeasurement to fair value of the remaining shares of M3, and allocated to identifiable tangible and intangible assets. The intangible assets relate primarily to M3 s medical web-portal. The unassigned residual value of the excess is recognized as goodwill as a component of the investment balance. The amounts allocated to intangible assets are amortized net of the related tax effects to equity in net income (loss) of affiliated companies over their respective estimated useful lives, principally 10 years, using the straight-line method.

With the exception of M3 as described above, there was no significant difference between Sony s proportionate share in the underlying net assets of the investees and the carrying value of investments in affiliated companies at March 31, 2012 and 2013.

With the exception of the investment in M3 which is quoted on the Tokyo Stock Exchange and has a carrying and fair value at March 31, 2013 of 128,815 million yen and 144,048 million yen, respectively, there were no affiliated companies accounted for under the equity method with a market quotation at March 31, 2012 and 2013.

The number of affiliated companies accounted for under the equity method at March 31, 2012 and 2013 were 95 and 101, respectively.

Account balances and transactions with affiliated companies accounted for under the equity method are presented below:

	Yen in millions March 31	
	2012	**2013**
Accounts receivable, trade	4,125	7,294
Accounts payable, trade	508	880
Capital lease obligations	39,080	27,485

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	Yen in millions Fiscal year ended March 31		
	2011	2012	2013
Sales	96,164	79,677	18,565
Purchases	383,922	157,930	1,725
Lease payments		24,159	25,523

SFI Leasing Company, Limited (SFIL), a leasing company in Japan, is accounted for under the equity method and 34% is owned by Sony after deconsolidation in November 2010. Sony entered into sale and leaseback transactions regarding certain machinery and equipment with SFIL in the fiscal years ended March 31, 2012 and 2013. Refer to Notes 8 and 24.

Dividends from affiliated companies accounted for under the equity method for the fiscal years ended March 31, 2011, 2012 and 2013 were 2,583 million yen, 1,964 million yen and 2,360 million yen, respectively.

During the fiscal year ended March 31, 2012 and prior to the sale of its shares of S-LCD, Sony paid additional LCD panel related expenses of 22,759 million yen (292 million U.S. dollars) resulting from low capacity utilization of S-LCD.

6. ***Transfer of financial assets***

The below transactions are accounted for as sales in accordance with the accounting guidance for transfers of financial assets, because Sony has relinquished control of the receivables. In each case, losses from these transactions were insignificant, and although Sony continues servicing the receivables subsequent to being sold or contributed, no servicing liabilities are recorded as the costs of collection of the sold receivables are insignificant. Other than the cash proceeds from the sales below, net cash flows related to these transactions, including servicing fees, for the fiscal years ended March 31, 2011, 2012 and 2013 were insignificant.

Sony has established several accounts receivable sales programs in Japan whereby Sony can sell up to 53,700 million yen of eligible trade accounts receivable in the aggregate at any one time. Through these programs, Sony can sell receivables to special purpose entities owned and operated by banks. Sony can sell receivables in which the agreed upon original due dates are no more than 190 days after the sales of receivables. Total trade accounts receivable sold during the fiscal years ended March 31, 2011, 2012 and 2013 were 136,232 million yen, 126,513 million yen and 105,888 million yen, respectively.

A subsidiary of the Financial Services segment has established several receivables sales programs whereby the subsidiary can sell up to 24,000 million yen of eligible receivables in the aggregate at any one time. Through these programs, the subsidiary can sell receivables to special purpose entities owned and operated by banks. The subsidiary can sell receivables in which the agreed upon original due dates are no more than 180 days after the sales of receivables. Total receivables sold during the fiscal years ended March 31, 2011, 2012 and 2013 were 166,025 million yen, 130,060 million yen and 89,700 million yen, respectively.

Sony has established an accounts receivable sales program in the United States whereby Sony s U.S. subsidiary can sell up to 350 million U.S. dollars of eligible trade accounts receivables in the aggregate at any one time to a commercial bank. The program requires that a portion of the sales proceeds be held back and deferred until collection of the related receivables by the purchaser. The portion of the sales proceeds held back and deferred is initially recorded at estimated fair value, is included in other current assets and was 16,272 million yen at March 31, 2012 and 4,462 million yen at March 31, 2013. Sony includes collections on such receivables as cash flows within operating activities in the consolidated statements of cash flows since the receivables are the result of operating activities and the associated interest rate risk is

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insignificant due to its short-term nature. Total trade receivables sold, deferred proceeds from those sales and collections of deferred proceeds during the fiscal years ended March 31, 2011, 2012 and 2013 are as follows:

	Yen in millions		
	Fiscal year ended March 31		
	2011	2012	2013
Total trade receivables sold	414,147	476,855	355,872
Deferred proceeds	185,647	117,343	8,098
Collections of deferred proceeds	153,550	132,636	20,608

During the fiscal year ended March 31, 2013, Sony established an accounts receivable sales program whereby Sony can sell eligible trade accounts receivables held by certain subsidiaries in Europe denominated in several currencies, primarily the euro, to a commercial bank on an uncommitted basis. The maximum receivables that may be sold at any one time in the aggregate translates into approximately 72,500 million yen as of March 31, 2013. Sony can sell receivables in which the agreed upon original due dates are no more than 150 days after the date the receivables are sold. Total receivables sold during the fiscal year ended March 31, 2013 was 66,020 million yen.

Certain of the accounts receivable sales programs above also involve variable interest entities (VIEs). Refer to Note 23.

7. *Marketable securities and securities investments*

Marketable securities and securities investments, mainly included in the Financial Services segment, are comprised of debt and equity securities of which the aggregate cost, gross unrealized gains and losses and fair value pertaining to available-for-sale securities and held-to-maturity securities are as follows:

	Yen in millions							
	March 31, 2012				March 31, 2013			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale:								
Debt securities:								
Japanese national government bonds	1,036,946	55,384	(879)	1,091,451	1,106,265	114,806	(463)	1,220,608
Japanese local government bonds	33,513	163	(1)	33,675	66,553	643	(1)	67,195
Japanese corporate bonds	293,885	1,489	(224)	295,150	210,519	1,715	(70)	212,164
Foreign corporate bonds	377,609	4,705	(7,063)	375,251	425,892	17,502	(620)	442,774
Other	22,383	1,548	(6)	23,925	20,607	4,431	(2)	25,036
	1,764,336	63,289	(8,173)	1,819,452	1,829,836	139,097	(1,156)	1,967,777
Equity securities	60,694	53,016	(1,513)	112,197	89,079	44,443	(997)	132,525
Held-to-maturity Securities:								
Japanese national government bonds	3,404,069	157,740	(4,499)	3,557,310	3,876,600	545,188		4,421,788
Japanese local government bonds	12,592	277		12,869	7,195	432		7,627
Japanese corporate bonds	31,379	1,501		32,880	28,918	3,571		32,489
Foreign corporate bonds	46,441	10		46,451	52,738	20		52,758
	3,494,481	159,528	(4,499)	3,649,510	3,965,451	549,211		4,514,662

Total	5,319,511	275,833	(14,185)	5,581,159	5,884,366	732,751	(2,153)	6,614,964

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On September 28, 2012, Sony entered into a business alliance agreement and capital alliance agreement with Olympus Corporation (Olympus). Under the terms of the capital alliance agreement, Olympus issued 34,387,900 common shares at 1,454 yen per share to Sony through a third-party allotment in two tranches. Accordingly, Sony made an investment of 19,047 million yen on October 23, 2012 for the first third-party allotment of 13,100,000 shares and acquired 4.35% of the total voting rights of Olympus. In addition, Sony made an investment of 30,953 million yen on February 22, 2013 for the second third-party allotment of 21,287,900 shares and acquired an additional 7.07% of the total voting rights of Olympus. As a result, Sony increased its ownership of the total voting rights of Olympus to 11.46%. The investment in Olympus shares is classified as available-for-sale equity securities.

The following table presents the cost and fair value of debt securities classified as available-for-sale securities and held-to-maturity securities by contractual maturity:

	Yen in millions March 31, 2013 Available-for-sale securities		Held-to-maturity securities	
	Cost	Fair Value	Cost	Fair Value
Due in one year or less	160,018	167,853	5,060	5,068
Due after one year through five years	526,540	536,129	20,124	20,828
Due after five years through ten years	258,717	268,767	31,206	33,720
Due after ten years	884,561	995,028	3,909,061	4,455,046
Total	1,829,836	1,967,777	3,965,451	4,514,662

Proceeds from sales of available-for-sale securities were 532,619 million yen, 177,850 million yen and 143,437 million yen for the fiscal years ended March 31, 2011, 2012 and 2013, respectively. On these sales, gross realized gains were 38,654 million yen, 9,593 million yen and 46,865 million yen and gross realized losses were 2,014 million yen, 1,834 million yen and 527 million yen, respectively.

Marketable securities classified as trading securities at March 31, 2012 and 2013 were 433,491 million yen and 530,787 million yen, respectively, which consist of debt and equity securities.

In the ordinary course of business, Sony maintains long-term investment securities, included in securities investments and other, issued by a number of non-public companies. The aggregate carrying amounts of the investments in non-public companies at March 31, 2012 and 2013, totaled 93,050 million yen and 68,329 million yen, respectively. Non-public equity investments are primarily valued at cost as fair value is not readily determinable.

With respect to trading securities, primarily in the Financial Services segment, Sony recorded net unrealized losses of 10,768 million yen for the fiscal year ended March 31, 2011, net unrealized gains of 21,216 million yen for the fiscal year ended March 31, 2012 and net unrealized gains of 72,793 million yen for the fiscal year ended March 31, 2013. Changes in the fair value of trading securities are primarily recognized in financial services revenue in the consolidated statements of income.

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The following tables present the gross unrealized losses on, and fair value of, Sony s investment securities with unrealized losses, aggregated by investment category and the length of time that individual investment securities have been in a continuous unrealized loss position, at March 31, 2012 and 2013.

	Yen in millions March 31, 2012					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Available-for-sale:						
Debt securities:						
Japanese national government bonds	55,450	(877)	3,048	(2)	58,498	(879)
Japanese local government bonds	2,364	(1)			2,364	(1)
Japanese corporate bonds	1,034	(196)	25,243	(28)	26,277	(224)
Foreign corporate bonds	68,277	(6,065)	83,650	(998)	151,927	(7,063)
Other	335	(6)			335	(6)
	127,460	(7,145)	111,941	(1,028)	239,401	(8,173)
Equity securities	4,337	(318)	16,826	(1,195)	21,163	(1,513)
Held-to-maturity Securities:						
Japanese national government bonds			333,702	(4,499)	333,702	(4,499)
Japanese local government bonds	70	(0)			70	(0)
Japanese corporate bonds						
Foreign corporate bonds						
	70	(0)	333,702	(4,499)	333,772	(4,499)
Total	131,867	(7,463)	462,469	(6,722)	594,336	(14,185)

	Yen in millions March 31, 2013					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Available-for-sale:						
Debt securities:						
Japanese national government bonds	3,383	(0)	46,796	(463)	50,179	(463)
Japanese local government bonds	592	(1)			592	(1)
Japanese corporate bonds	4,731	(7)	5,271	(63)	10,002	(70)
Foreign corporate bonds	28,133	(83)	19,228	(537)	47,361	(620)
Other	61	(0)	144	(2)	205	(2)
	36,900	(91)	71,439	(1,065)	108,339	(1,156)
Equity securities	10,458	(933)	75	(64)	10,533	(997)
Held-to-maturity Securities:						

Japanese national government bonds						
Japanese local government bonds						
Japanese corporate bonds						
Foreign corporate bonds						
Total	47,358	(1,024)	71,514	(1,129)	118,872	(2,153)

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For the fiscal years ended March 31, 2011, 2012 and 2013, total realized impairment losses were 9,763 million yen, 5,530 million yen and 8,554 million yen, respectively.

At March 31, 2013, Sony determined that the decline in value for securities with unrealized losses shown in the above table is not other-than-temporary in nature.

8. ***Leases***

Sony leases certain communication and commercial equipment, plant, office space, warehouses, employees residential facilities and other assets. Certain of these leases have renewal and purchase options. Sony has also entered into capital lease arrangements with third parties to finance certain of its motion picture productions, as well as sale and leaseback transactions for office buildings, machinery and equipment.

(1) Capital leases:

Leased assets under capital leases are comprised of the following:

	Yen in millions	
	March 31	
Class of property	**2012**	**2013**
Machinery, equipment and others	58,751	63,008
Film costs	9,465	9,147
Accumulated amortization	(20,514)	(36,287)
	47,702	35,868

The following is a schedule by year of the future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of March 31, 2013:

Fiscal year ending March 31	Yen in millions
2014	20,535
2015	5,350
2016	3,248
2017	2,820
2018	2,585
Later years	6,286
Total minimum lease payments	40,824
Less Amount representing interest	2,568
Present value of net minimum lease payments	38,256
Less Current obligations	19,718
Long-term capital lease obligations	18,538

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(2) Operating leases:

The minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year at March 31, 2013 are as follows:

Fiscal year ending March 31	Yen in millions
2014	57,598
2015	46,483
2016	35,633
2017	24,243
2018	19,724
Later years	54,025
Total minimum future rentals	237,706

Rental expenses under operating leases for the fiscal years ended March 31, 2011, 2012 and 2013 were 78,538 million yen, 76,188 million yen and 78,523 million yen, respectively. Sublease rentals received under operating leases for the fiscal years ended March 31, 2011, 2012 and 2013 were 1,974 million yen, 1,423 million yen and 904 million yen, respectively. The total minimum rentals to be received in the future under noncancelable subleases for operating leases as of March 31, 2013 were 3,104 million yen.

(3) Sale and leaseback transactions:

Sony City Osaki sale and leaseback -

In February 2013, Sony sold its Sony City Osaki office building and premises (Sony City Osaki) to Nippon Building Fund Inc. and a Japanese institutional investor. The sale was structured such that Sony placed Sony City Osaki in a trust and then sold the trust beneficiary rights. In connection with the sale, Sony entered into an agreement to lease Sony City Osaki for a period of five years after the sale. The leaseback is accounted for as an operating lease.

The sale price was 111,100 million yen and Sony received net cash proceeds of 110,175 million yen after deducting transaction costs. The transaction qualified for sale-leaseback accounting as all the risk and rewards of ownership were transferred to the buyer upon closing of the transaction and the leaseback did not include any form of continuing involvement, other than a normal leaseback. As the leaseback represents more than a minor but less than substantially all of the use of the building, Sony recorded a gain upon the sale of 42,322 million yen in the fiscal year ended March 31, 2013, included in other operating (income) expenses, net. In addition to the gain recognized upon the sale, a gain of 24,982 million yen was required to be deferred and will be amortized on a straight-line basis and included in other operating (income) expense, net in the consolidated statements of income over the lease term. Of the remaining deferred gain as of March 31, 2013, 4,914 million yen is recorded in other current liabilities and 19,658 million yen in other noncurrent liabilities in the consolidated balance sheets.

550 Madison sale and leaseback -

In March 2013, Sony exercised its option to purchase the headquarters building (the U.S. headquarters building) of its U.S. subsidiary which was leased from a VIE in which Sony was the primary beneficiary for 255 million U.S. dollars. Concurrent with the exercise of the purchase option, Sony completed the sale of the U.S. headquarters building to a third party. In connection with the sale, Sony entered into an agreement to lease the U.S. headquarters building for a period of three years after the sale. The leaseback is accounted for as an operating lease.

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The sale price was 1,100 million U.S. dollars and Sony received net cash proceeds of 780 million U.S. dollars after deducting the cost of the purchase option and other transaction costs. The transaction qualified for sale-leaseback accounting as all the risk and rewards of ownership were transferred to the buyer upon closing of the transaction and the leaseback did not include any form of continuing involvement, other than a normal leaseback. As the leaseback represents more than a minor but less than substantially all of the use of the building, Sony recorded a gain upon the sale of 691 million U.S. dollars in the fiscal year ended March 31, 2013, included in other operating (income) expense, net in the consolidated statements of income. In addition to the gain recognized upon the sale, a gain of 166 million U.S. dollars was required to be deferred and will be amortized on a straight-line basis and included in other operating (income) expense, net in the consolidated statements of income over the lease term. Of the remaining deferred gain as of March 31, 2013, 55 million U.S. dollars is recorded in other current liabilities and 109 million U.S. dollars in other noncurrent liabilities in the consolidated balance sheets.

Sale and leaseback transactions with SFIL -

In the fiscal year ended March 31, 2012, Sony entered into a three year sale and leaseback transaction for certain machinery and equipment with SFIL. The leaseback is accounted for as a capital lease. Sony received proceeds of 50,537 million yen based on the amounts recorded at fair value in the acquisition described in Note 24, and as such there was no gain or loss recorded in the sale and leaseback transaction.

In the fiscal year ended March 31, 2013, Sony entered into sale and leaseback transactions regarding certain machinery and equipment with SFIL. Transactions with total proceeds of 11,789 million yen and terms which averaged two years, have been accounted for as financings and are included within proceeds from issuance of long-term debt in the financing activities section of the consolidated statements of cash flows. Additionally, a transaction with proceeds of 6,262 million yen and a seven year term was accounted for as a capital lease and included within proceeds from sale of fixed assets in the investing activities section of the consolidated statements of cash flows. There was no gain or loss recorded in either sale and leaseback transaction.

9. *Goodwill and intangible assets*

Intangible assets acquired during the fiscal year ended March 31, 2013 totaled 66,483 million yen, of which 65,710 million yen is subject to amortization and are comprised of the following:

	Intangible assets acquired during the year Yen in millions	Weighted-average amortization period Years
Patent rights, know-how and license agreements	38,231	7
Trademarks	537	10
Software to be sold, leased or otherwise marketed	19,444	4
Other	7,498	4

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Intangible assets subject to amortization are comprised of the following:

	Yen in millions			
	March 31, 2012		March 31, 2013	
	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization
Patent rights, know-how and license agreements	226,142	(80,334)	280,715	(118,363)
Customer relationships	23,758	(1,409)	26,485	(3,658)
Trademarks	20,214	(2,154)	21,896	(5,894)
Software to be sold, leased or otherwise marketed	98,852	(58,865)	115,341	(73,314)
Music catalogs	157,699	(45,570)	183,398	(62,255)
Artist contracts	27,401	(19,419)	26,702	(18,939)
Television carriage agreements (broadcasting agreements)	36,216	(2,370)	41,264	(4,759)
Other	87,843	(54,338)	95,501	(67,026)
Total	678,125	(264,459)	791,302	(354,208)

The aggregate amortization expense for intangible assets for the fiscal years ended March 31, 2011, 2012 and 2013 was 52,763 million yen, 57,023 million yen and 75,890 million yen, respectively. The estimated aggregate amortization expense for intangible assets for the next five years is as follows:

Fiscal year ending March 31	Yen in millions
2014	75,357
2015	61,439
2016	48,693
2017	38,435
2018	31,411

Total carrying amount of intangible assets having an indefinite life are comprised of the following:

	Yen in millions	
	March 31	
	2012	2013
Trademarks	66,729	68,099
Distribution agreements	18,807	19,116
Other	4,497	3,198
Total	90,033	90,413

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The changes in the carrying amount of goodwill by segment for the fiscal years ended March 31, 2012 and 2013 are as follows:

	Yen in millions									
	Imaging Products & Solutions	Game	Mobile Products & Communications*1	Home Entertainment & Sound	Devices	Pictures	Music	Financial Services	All Other	Total
Balance, March 31, 2011:										
Goodwill gross	6,044	123,285		5,320	62,628	140,584	102,994	3,020	39,417	483,292
Accumulated impairments	(300)			(5,320)			(306)	(706)	(7,655)	(14,287)
Goodwill	5,744	123,285		0	62,628	140,584	102,688	2,314	31,762	469,005
Increase (decrease) due to:										
Acquisitions		166	128,522			1,330			4,358	134,376
Sales and dispositions					(589)					(589)
Impairments*2									(932)	(932)
Translation adjustments	124	(240)	9,733		(107)	(3,073)	(1,891)		(585)	3,961
Other*3*4	(201)				(28,773)	(521)	(147)		579	(29,063)
Balance, March 31, 2012:										
Goodwill gross	5,967	123,211	138,255	5,320	33,159	138,320	100,956	3,020	43,769	591,977
Accumulated impairments	(300)			(5,320)			(306)	(706)	(8,587)	(15,219)
Goodwill	5,667	123,211	138,255	0	33,159	138,320	100,650	2,314	35,182	576,758
Increase (decrease) due to:										
Acquisitions*5		19,793			2,044	3,174	2,626		1,022	28,659
Sales and dispositions*6									(15,040)	(15,040)
Impairments*2									(1,445)	(1,445)
Translation adjustments	108	4,527	15,314		316	19,338	10,402		2,368	52,373
Other*3					1,750	25	(28)		191	1,938
Balance, March 31, 2013:										
Goodwill gross	6,075	147,531	153,569	5,320	37,269	160,857	113,956	3,020	32,310	659,907
Accumulated impairments	(300)			(5,320)			(306)	(706)	(10,032)	(16,664)
Goodwill	5,775	147,531	153,569	0	37,269	160,857	113,650	2,314	22,278	643,243

*1 The 128,522 million yen in the fiscal year ended March 31, 2012 relates to the Sony Ericsson acquisition. Refer to Note 24.

*2 During the fiscal years ended March 31, 2012 and 2013, Sony recorded impairment losses of 932 million yen and 1,445 million yen, respectively, in reporting units included in All Other. The impairment charges reflected the overall decline in the fair values of the reporting units. The fair values of the reporting units were estimated using the expected present value of future cash flows.

*3 Other primarily consists of purchase price adjustments for prior years and amounts reclassified as held for sale.

*4 The chemical products business, which is included in the Devices segment was classified as held for sale as of March 31, 2012. No impairment loss was recognized as a result of the held for sale classification. The

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assets held for sale included 29,182 million yen of goodwill which was reclassified to other assets in the consolidated balance sheets prior to completing the divestiture in the fiscal year ended March 31, 2013. Refer to Note 25.

*5 Substantially all of the acquisition amounts in the Game segment relate to the Gaikai Inc. (Gaikai) acquisition. Refer to Note 24.

*6 Sales and dispositions amounts in All Other substantially all relate to the sale of certain M3 shares. Refer to Note 5.

10. *Insurance-related accounts*

Sony s Financial Services segment subsidiaries in Japan maintain their accounting records as described in Note 2 in accordance with the accounting principles and practices generally accepted in Japan, which vary in some respects from U.S. GAAP.

Those differences are mainly that insurance acquisition costs for life and non-life insurance are charged to income when incurred in Japan whereas in the U.S. those costs are deferred and amortized generally over the premium-paying period of the related insurance policies, and that future policy benefits for life insurance calculated locally under the authorization of the supervisory administrative agencies are comprehensively adjusted to a net level premium method with certain adjustments of actuarial assumptions for U.S. GAAP purposes. For the purpose of preparing the consolidated financial statements, appropriate adjustments have been made to reflect the accounting for these items in accordance with U.S. GAAP.

The combined amounts of statutory net equity of the insurance subsidiaries, which is not measured in accordance with U.S. GAAP, as of March 31, 2012 and 2013 were 282,846 million yen and 362,267 million yen, respectively.

(1) Insurance policies:

Life insurance policies that a subsidiary in the Financial Services segment underwrites, most of which are categorized as long-duration contracts, mainly consist of whole life, term life and accident and health insurance contracts. The life insurance revenues for the fiscal years ended March 31, 2011, 2012 and 2013 were 600,291 million yen, 654,986 million yen and 723,399 million yen, respectively. Property and casualty insurance policies that a subsidiary in the Financial Services segment underwrites are primarily automotive insurance contracts, which are categorized as short-duration contracts. The non-life insurance revenues for the fiscal years ended March 31, 2011, 2012 and 2013 were 71,037 million yen, 76,958 million yen and 81,974 million yen, respectively.

(2) Deferred insurance acquisition costs:

Costs that vary with and are directly related to acquiring new insurance policies are deferred as long as they are recoverable. The deferred insurance acquisition costs include such items as commissions, medical examination costs and inspection report fees, and are subject to recoverability testing at least annually to ensure that the capitalized amounts do not exceed the present value of anticipated gross profits or premiums less benefits and maintenance expenses, as applicable. The deferred insurance acquisition costs for traditional life insurance contracts are amortized over the premium-paying period of the related insurance policies using assumptions consistent with those used in computing policy reserves. The deferred insurance acquisition costs for non-traditional life insurance contracts are amortized over the expected life in proportion to the estimated gross profits. Amortization charged to income for the fiscal years ended March 31, 2011, 2012 and 2013 amounted to 59,249 million yen, 55,427 million yen and 55,416 million yen, respectively.

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(3) Future insurance policy benefits:

Liabilities for future policy benefits, which mainly related to individual life insurance policies, are established in amounts adequate to meet the estimated future obligations of policies in force. These liabilities, which require significant management judgment and estimates, are computed by the net level premium method based upon the assumptions as to future investment yield, morbidity, mortality, withdrawals and other factors. Future policy benefits are computed using interest rates ranging from 1.4% to 4.5% and are based on factors such as market conditions and expected investment returns. Morbidity, mortality and withdrawal assumptions for all policies are based on either the subsidiary s own experience or various actuarial tables. Generally these assumptions are locked-in throughout the life of the contract upon the issuance of new insurance, although significant changes in experience or assumptions may require Sony to provide for expected future losses. At March 31, 2012 and 2013, future insurance policy benefits amounted to 3,202,066 million yen and 3,532,626 million yen, respectively.

(4) Policyholders account in the life insurance business:

Policyholders account in the life insurance business represents an accumulation of account deposits plus credited interest less withdrawals, expenses and mortality charges. Policyholders account includes universal life insurance and investment contracts. Universal life insurance includes interest sensitive whole life contracts and variable contracts. The credited rate associated with interest sensitive whole life contracts is 2.0%. For variable contracts, policy values are expressed in terms of investment units. Each unit is linked to an asset portfolio. The value of a unit increases or decreases based on the value of the linked asset portfolio. Investment contracts mainly include single payment juvenile contracts and policies after the start of annuity payments. The credited rates associated with investment contracts range from 0.1% to 6.3%.

Policyholders account in the life insurance business is comprised of the following:

	Yen in millions March 31 2012	 2013
Universal life insurance	1,010,277	1,199,409
Investment contracts	340,600	363,213
Other	98,767	130,494
Total	1,449,644	1,693,116

11. *Short-term borrowings and long-term debt*

Short-term borrowings are comprised of the following:

	Yen in millions March 31 2012	 2013
Unsecured loans:		
with a weighted-average interest rate of 3.98%	89,878	
with a weighted-average interest rate of 3.89%		77,894
Secured call money:		
with a weighted-average interest rate of 0.11%	10,000	
with a weighted-average interest rate of 0.11%		10,000
	99,878	87,894

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At March 31, 2013, certain subsidiaries in the Financial Services segment pledged as collateral securities investments with a book value of 10,543 million yen for 10,000 million yen of call money. In addition, marketable securities and securities investments with an aggregate book value of 67,660 million yen were pledged as collateral for cash settlements, variation margins of futures markets and certain other purposes.

Long-term debt is comprised of the following:

	Yen in millions March 31	
	2012	**2013**
Unsecured loans, representing obligations principally to banks:		
Due 2012 to 2024, with interest rates ranging from 0.23% to 4.50% per annum	564,275	
Due 2013 to 2024, with interest rates ranging from 0.37% to 5.10% per annum		567,952
Unsecured 1.16% bonds, due 2012, net of unamortized discount	39,999	
Unsecured 1.52% bonds, due 2013, net of unamortized discount	35,000	
Unsecured 1.57% bonds, due 2015, net of unamortized discount	29,993	29,995
Unsecured 1.75% bonds, due 2015, net of unamortized discount	24,997	24,998
Unsecured 0.95% bonds, due 2012	60,000	
Unsecured 1.40% bonds, due 2013	10,700	10,700
Unsecured 1.30% bonds, due 2014	110,000	110,000
Unsecured 0.55% bonds, due 2016	10,000	10,000
Unsecured 0.66% bonds, due 2017	45,000	45,000
Unsecured 0.43% bonds, due 2018		10,000
Unsecured 2.00% bonds, due 2018	16,300	16,300
Unsecured 2.07% bonds, due 2019	50,000	50,000
Unsecured 1.41% bonds, due 2022	10,000	10,000
Unsecured zero coupon convertible bonds, due 2017		150,000
Capital lease obligations and other:		
Due 2012 to 2026, with interest rates ranging from 0.03% to 8.74% per annum	49,754	
Due 2013 to 2026, with interest rates ranging from 0.28% to 7.77% per annum		44,125
Guarantee deposits received	16,691	15,646
	1,072,709	1,094,716
Less Portion due within one year	310,483	156,288
	762,226	938,428

In March 2012, Sony executed a 1,365 million U.S. dollar unsecured bank loan with a group of lenders having six to ten year maturity terms in connection with acquiring Ericsson s 50% equity interest in Sony Ericsson. This bank loan utilizes the Japan Bank for International Cooperation (JBIC) Facility, which was established to facilitate overseas mergers and acquisitions by Japanese companies as one of countermeasures against yen appreciation. Of the 1,365 million U.S. dollar loan, 60% or 819 million U.S. dollars is from the JBIC Facility and 40% or 546 million U.S. dollars is from private banks. The terms of this U.S. dollar loan agreement require accelerated repayment of the loan if Sony Corporation or its wholly-owned subsidiaries discontinue the business of mobile devices featuring telephone functionality.

In November 2012, Sony issued 150,000 million yen of Zero Coupon Convertible Bonds due 2017 (the Zero Coupon Convertible Bonds). The bondholders are entitled to stock acquisition rights effective from December 14, 2012 to November 16, 2017. The initial conversion price is 957 yen per common share. Aside from the standard anti-dilution provisions, the conversion price is reduced for a certain period before an early redemption triggered upon the occurrence of certain corporate events including a merger, corporate split and

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delisting event. The reduced amount of the conversion price will be determined by a formula which is based on the effective date of the reduction and Sony s common stock price. The reduced conversion price ranges from 870 yen to 957 yen per common share. The conversion price is also adjusted for dividends in excess of 25 yen per common share per fiscal year. The bondholders may require Sony to redeem the Zero Coupon Convertible Bonds on or after a reduction in the conversion price is triggered at 100% of its principal amount, together with a redemption premium which begins at 2.5% of the principal amount and ends at zero, amortized on a straight-line basis over the term of the Zero Coupon Convertible Bonds. In addition, Sony has the option to redeem all of the Zero Coupon Convertible Bonds outstanding at 100% of the principal amount after November 30, 2015, if the closing sales prices per share of Sony s common stock on the Tokyo Stock Exchange on 20 consecutive trading days are 130% or more of the conversion price, or at any time if less than 10% of the original issuance is outstanding. Sony was not required to bifurcate any of the embedded features contained in the Zero Coupon Convertible Bonds for accounting purposes. There are no significant adverse debt covenants related to the Zero Coupon Convertible Bonds, although there are certain cross-default provisions.

There are no significant adverse debt covenants or cross-default provisions related to the other short-term borrowings and long-term debt.

Aggregate amounts of annual maturities of long-term debt are as follows:

Fiscal year ending March 31	**Yen in millions**
2014	156,288
2015	213,369
2016	98,198
2017	158,464
2018	263,347
Later years	205,050
Total	1,094,716

At March 31, 2013, Sony had unused committed lines of credit amounting to 832,156 million yen and can generally borrow up to 180 days from the banks with whom Sony has committed line contracts. Furthermore, at March 31, 2013, Sony has commercial paper programs, the size of which was 782,150 million yen. Sony can issue commercial paper for a period generally not in excess of 270 days up to the size of the programs.

12. ***Housing loans and deposits from customers in the banking business***

(1) Housing loans in the banking business:

Sony acquires and holds certain financial receivables in the normal course of business. A majority of financing receivables held by Sony consist of housing loans in the banking business and no other significant financial receivables exist.

A subsidiary in the banking business monitors the credit quality of housing loans based on the classification set by the financial conditions and the past due status of individual obligators. Past due status is monitored on a daily basis and the aforementioned classification is reviewed on a quarterly basis.

The allowance for the credit losses is established based on the aforementioned classifications and the evaluation of collateral. The amount of housing loans in the banking business and the corresponding allowance for credit losses at March 31, 2012 were 749,636 million yen and 1,066 million yen, and at March 31, 2013 were 860,330 million yen and 1,135 million yen, respectively. During the fiscal years ended March 31, 2012 and 2013, charge-offs on housing loans in the banking business and changes in the allowance for credit losses, which took into consideration the impact of the Great East Japan Earthquake discussed in Note 18, were not significant.

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In addition, the balance of housing loans placed on nonaccrual status or past due status were not significant at March 31, 2012 and 2013. A subsidiary in the banking business assesses the nonaccrual status based on the aforementioned classification, and may resume the accrual of the interest on the housing loan if the classification of the housing loan is changed.

(2) Deposits from customers in the banking business:
All deposits from customers in the banking business within the Financial Services segment are interest bearing deposits. At March 31, 2012 and 2013, the balances of time deposits issued in amounts of 10 million yen or more were 374,665 million yen and 362,691 million yen, respectively. These amounts have been classified as current liabilities due to the ability of the customers to make withdrawals prior to maturity.

At March 31, 2013, aggregate amounts of annual maturities of time deposits with a remaining term of more than one year are as follows:

Fiscal year ending March 31	Yen in millions
2015	36,579
2016	14,533
2017	4,056
2018	3,404
2019	2,065
Later years	42,995
Total	103,632

13. *Fair value measurements*
As discussed in Note 2, assets and liabilities subject to the accounting guidance for fair value measurements held by Sony are classified and accounted for as described below.

(1) Assets and liabilities that are measured at fair value on a recurring basis:
The following section describes the valuation techniques used by Sony to measure different financial instruments at fair value, including an indication of the level in the fair value hierarchy in which each instrument is generally classified.

Trading securities, available-for-sale securities and other investments

Where quoted prices are available in an active market, securities are classified in level 1 of the fair value hierarchy. Level 1 securities include exchange-traded equities. If quoted market prices are not available for the specific security or the market is inactive, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows and mainly classified in level 2 of the hierarchy. Level 2 securities include debt securities with quoted prices that are traded less frequently than 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, securities are classified within level 3 of the fair value hierarchy. Level 3 securities do not have actively traded quotes at the balance sheet date and require the use of unobservable inputs, such as indicative quotes from dealers and qualitative input from investment advisors, to value these securities. Level 3 assets include financial instruments whose value is determined using pricing models, discounted cash flow techniques, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation of assumptions that market participants would use in pricing the asset. Level 3 securities primarily include certain hybrid financial instruments and certain private equity investments not classified within level 1 or level 2.

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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 i.e., parameters that are actively quoted and can be validated to external sources, including industry pricing services. Depending on the types and contractual terms of derivatives, fair value can be modeled using a series of techniques, such as the Black-Scholes option pricing model, which are consistently applied. Where derivative products have been established for some time, Sony uses models that are widely accepted in the financial services industry. These models reflect the contractual terms of the derivatives, including the period to maturity, and market-based parameters such as interest rates, volatility, and the credit rating of the counterparty. Further, many of these models do not contain a high level of subjectivity as the techniques used in the models do not require significant judgment, and inputs to the model are readily observable from actively quoted markets. Such instruments are generally classified within level 2 of the fair value hierarchy.

In determining the fair value of Sony s interest rate swap derivatives, Sony uses the present value of expected cash flows based on market observable interest rate yield curves commensurate with the term of each instrument. For foreign currency derivatives, Sony s approach is to use forward contract and option valuation models employing market observable inputs, such as spot currency rates, time value and option volatilities. These derivatives are classified within level 2 since Sony primarily uses observable inputs in its valuation of its derivative assets and liabilities.

The fair value of Sony s assets and liabilities that are measured at fair value on a recurring basis at March 31, 2012 and 2013 are as follows:

	Yen in millions March 31, 2012							
					Presentation in the consolidated balance sheets			
	Level 1	Level 2	Level 3	Total	Marketable securities	Securities investments and other	Other current assets/ liabilities	Other noncurrent assets/ liabilities
Assets:								
Trading securities	214,036	219,455		433,491	433,491			
Available-for-sale securities								
Debt securities								
Japanese national government bonds		1,091,451		1,091,451	23,267	1,068,184		
Japanese local government bonds		33,675		33,675	1,405	32,270		
Japanese corporate bonds		293,637	1,513	295,150	123,434	171,716		
Foreign corporate bonds		359,960	15,291	375,251	75,764	299,487		
Other		23,616	309	23,925		23,925		
Equity securities	111,517	680		112,197		112,197		
Other investments*[1]	5,475	4,592	73,451	83,518		83,518		
Derivative assets*[2]		18,518		18,518			18,513	5
Total assets	331,028	2,045,584	90,564	2,467,176	657,361	1,791,297	18,513	5
Liabilities:								
Derivative liabilities*[2]		41,218		41,218			40,034	1,184
Total liabilities		41,218		41,218			40,034	1,184

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					Yen in millions March 31, 2013			
					Presentation in the consolidated balance sheets			
	Level 1	Level 2	Level 3	Total	Marketable securities	Securities investments and other	Other current assets/ liabilities	Other noncurrent assets/ liabilities
Assets:								
Trading securities	278,575	252,212		530,787	530,787			
Available-for-sale securities								
Debt securities								
Japanese national government bonds		1,220,608		1,220,608	24,335	1,196,273		
Japanese local government bonds		67,195		67,195	61	67,134		
Japanese corporate bonds		209,950	2,214	212,164	40,359	171,805		
Foreign corporate bonds		422,022	20,752	442,774	96,896	345,878		
Other		25,036		25,036	98	24,938		
Equity securities	132,447	78		132,525		132,525		
Other investments*1	6,742	3,126	76,892	86,760		86,760		
Derivative assets*2		21,862		21,862			20,713	1,149
Total assets	417,764	2,222,089	99,858	2,739,711	692,536	2,025,313	20,713	1,149
Liabilities:								
Derivative liabilities*2		41,998		41,998			20,322	21,676
Total liabilities		41,998		41,998			20,322	21,676

*1 Other investments include certain hybrid financial instruments and certain private equity investments.

*2 Derivative assets and liabilities are recognized and disclosed on a gross basis.

Transfers into level 1 were 2,169 million yen and 1,612 million yen for the fiscal years ended March 31, 2012 and 2013 respectively, as quoted prices for certain trading securities became available in an active market. Transfers out of level 1 were 7,221 million yen and 2,417 million yen for the fiscal years ended March 31, 2012 and 2013 respectively, as quoted prices for certain trading securities were not available in an active market.

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The changes in fair value of level 3 assets and liabilities for the fiscal years ended March 31, 2012 and 2013 are as follows:

	Yen in millions Fiscal year ended March 31, 2012 Assets			
	Available-for-sale securities Debt securities			
	Japanese corporate bonds	Foreign corporate bonds	Other	Other investments
Beginning balance	4,581	19,751	299	74,026
Total realized and unrealized gains (losses):				
Included in earnings*1		27		(1,214)
Included in other comprehensive income (loss)*2	(2)	271	10	505
Purchases		6,994		3,144
Settlements	(500)	(5,961)		(2,784)
Transfers into level 3*3	2,116	956		
Transfers out of level 3*4	(4,682)	(6,747)		
Other				(226)
Ending balance	1,513	15,291	309	73,451
Changes in unrealized gains (losses) relating to instruments still held at reporting date:				
Included in earnings*1		(2)		(1,215)

	Yen in millions Fiscal year ended March 31, 2013 Assets			
	Available-for-sale securities Debt securities			
	Japanese corporate bonds	Foreign corporate bonds	Other	Other investments
Beginning balance	1,513	15,291	309	73,451
Total realized and unrealized gains (losses):				
Included in earnings*1		12		5,765
Included in other comprehensive income (loss)*2	(2)	2,086	(9)	1,984
Purchases		4,701		1,836
Settlements		(4,100)		(2,982)
Transfers into level 3*3	703	4,906		
Transfers out of level 3*4		(2,244)	(300)	
Other		100		(3,162)
Ending balance	2,214	20,752		76,892
Changes in unrealized gains (losses) relating to instruments still held at reporting date:				

Included in earnings*1	(14)	5,765

*1 Earning effects are included in financial services revenue in the consolidated statements of income.

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*2 Unrealized gains (losses) are included in unrealized gains (losses) on securities in the consolidated statements of comprehensive income.

*3 Certain corporate bonds were transferred into level 3 because differences between fair value determined by indicative quotes from dealers and internally developed prices became significant and the observability of inputs decreased.

*4 Certain corporate bonds were transferred out of level 3 because quoted prices became available.

Level 3 assets include certain hybrid financial instruments for which the price fluctuates primarily based on the main stock index in Japan (Nikkei index), certain private equity investments, and certain domestic and foreign corporate bonds for which quoted prices are not available in a market and where there is less transparency around inputs. In determining the fair value of such assets, Sony uses third-party information such as indicative quotes from dealers without adjustment. For validating the fair values, Sony primarily uses internal models which include management judgment or estimation of assumptions that market participants would use in pricing the asset.

(2) Assets and liabilities that are measured at fair value on a nonrecurring basis:

Sony also has assets and liabilities that are required to be recorded at fair value on a nonrecurring basis when certain circumstances occur. During the fiscal years ended March 31, 2012 and 2013, such measurements of fair value related primarily to the following:

	Fiscal year ended March 31, 2012			
	Estimated fair value			Amounts included in earnings
	Level 1	Level 2	Level 3	
Assets:				
Remeasurement of previously owned equity interest in Sony Ericsson			71,449	102,331
S-LCD impairment			71,662	(60,019)
Long-lived assets impairments			8,292	(59,583)
				(17,271)

	Fiscal year ended March 31, 2013			
	Estimated fair value			Amounts included in earnings
	Level 1	Level 2	Level 3	
Assets:				
Remeasurement of retained investment in M3	128,289			117,216
Long-lived assets impairments			3,935	(14,494)
				102,722

Remeasurement of previously owned equity interest in Sony Ericsson

During the fiscal year ended March 31, 2012, Sony remeasured to fair value the previously owned equity interest as part of Sony Ericsson acquisition. This measurement is classified as level 3 because significant unobservable inputs, such as projections of future cash flows and market comparables of similar transactions and companies were considered in the fair value measurement. Refer to Note 24.

S-LCD impairment

During the fiscal year ended March 31, 2012, Sony recorded other-than-temporary impairment loss on its share of S-LCD, including the reclassification to net income of foreign currency translation adjustments and the

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impact of the exchange rate fluctuations between the initial impairment loss and closing of the sale to Samsung. The measurement of the fair value of shares of S-LCD after impairment is classified as level 3 because significant unobservable inputs, primarily the estimate of the cash that would be received upon the sale to Samsung, were considered in the fair value measurement. Refer to Note 5.

Remeasurement of retained investment in M3

During the fiscal year ended March 31, 2013, Sony sold part of its shares in M3 and remeasured the remaining shares to fair value in accordance with the accounting guidance for deconsolidation of a subsidiary. This measurement is classified as level 1 because a quoted price for the shares of M3 is available on the Tokyo Stock Exchange. Refer to Note 5.

Long-lived assets impairments

Long-lived assets are measured at the lesser of carrying value or fair value if such assets are held for sale or when there is a determination that the asset is impaired. Sony s determination of fair value was based on the comparable market values or estimated net cash flows which considered prices and other relevant information generated by market transactions involving comparable assets or cash flow projections based upon the most recent business plan. These measurements are classified as level 3 because significant unobservable inputs, such as the conditions of the assets or projections of future cash flows, were considered in the fair value measurements. Refer to Note 19.

(3) Financial instruments:

The estimated fair values by fair value hierarchy level of certain financial instruments that are not reported at fair value are summarized as follows:

	Yen in millions March 31, 2012				
		Estimated fair value			Carrying amount
	Level 1	Level 2	Level 3	Total	Total
Assets:					
Housing loans in the banking business		823,668		823,668	749,636
Total assets		823,668		823,668	749,636
Liabilities:					
Long-term debt including the current portion		1,079,914		1,079,914	1,072,709
Investment contracts included in policyholders account in the life insurance business		338,589		338,589	340,600
Total liabilities		1,418,503		1,418,503	1,413,309

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	Yen in millions March 31, 2013				
		Estimated fair value			Carrying amount
	Level 1	Level 2	Level 3	Total	Total
Assets:					
Housing loans in the banking business		947,276		947,276	860,330
Total assets		947,276		947,276	860,330
Liabilities:					
Long-term debt including the current portion		1,221,174		1,221,174	1,094,716
Investment contracts included in policyholders account in the life insurance business		363,634		363,634	363,213
Total liabilities		1,584,808		1,584,808	1,457,929

The summary excludes cash and cash equivalents, call loans, time deposits, notes and accounts receivable, trade, call money, short-term borrowings, notes and accounts payable, trade and deposits from customers in the banking business because the carrying values of these financial instruments approximated their fair values due to their short-term nature. The summary also excludes held-to-maturity securities disclosed in Note 7.

Cash and cash equivalents, call loans and call money are classified in level 1. Time deposits, short-term borrowings, deposits from customers in the banking business are classified in level 2. Held-to-maturity securities, included in marketable securities and securities investments and other in the consolidated balance sheets, primarily include debt securities with quoted prices that are traded less frequently than exchange-traded instruments, such as the majority of government bonds and corporate bonds and are substantially all classified in level 2. The fair values of housing loans in the banking business, included in securities investments and other in the consolidated balance sheets, were estimated based on the discounted future cash flows using interest rates reflecting London InterBank Offered Rate base yield curve with a certain risk premium. The fair values of long-term debt including the current portion and investment contracts included in policyholders account in the life insurance business were estimated based on either the market value or the discounted future cash flows using Sony s current incremental borrowing rates for similar liabilities.

14. ***Derivative instruments and hedging activities***

Sony has certain financial instruments including financial assets and liabilities acquired in the normal course of business. Such financial instruments are exposed to market risk arising from the changes of foreign currency exchange rates and interest rates. In applying a consistent risk management strategy for the purpose of reducing such risk, Sony uses derivative financial instruments, which include foreign exchange forward contracts, foreign currency option contracts, and interest rate swap agreements (including interest rate and currency swap agreements). Certain other derivative financial instruments are entered into in the Financial Services segment for asset-liability management (ALM) purposes. These instruments are executed with creditworthy financial institutions, and virtually all foreign currency contracts are denominated in U.S. dollars, euros and other currencies of major countries. These derivatives generally mature or expire within six months after the balance sheet date. Other than derivatives utilized in the Financial Services segment for ALM, Sony does not use derivative financial instruments for trading or speculative purposes. These derivative transactions utilized for ALM in the Financial Services segment are executed within a certain limit in accordance with an internal risk management policy.

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

Fair value hedges

Both the derivatives designated as fair value hedges and the hedged items are reflected at fair value in the consolidated balance sheets. Changes in the fair value of the derivatives designated as fair value hedges as well as offsetting changes in the carrying value of the underlying hedged items are recognized in income. For the fiscal years ended March 31, 2011, 2012 and 2013, these fair value hedges were fully effective. In addition, there were no amounts excluded from the assessment of hedge effectiveness of fair value hedges.

Cash flow hedges

Changes in the fair value of derivatives designated as cash flow hedges are initially recorded in other comprehensive income (OCI) and reclassified into earnings when the hedged transaction affects earnings. For the fiscal years ended March 31, 2011, 2012 and 2013, the ineffective portion of the hedging relationship is not significant. In addition, there were no amounts excluded from the assessment of hedge effectiveness for cash flow hedges.

Derivatives not designated as hedges

Changes in the fair value of derivatives not designated as hedges are recognized in income.

A description of the purpose and classification of the derivative financial instruments held by Sony is as follows:

Foreign exchange forward contracts and foreign currency option contracts

Foreign exchange forward contracts and purchased and written foreign currency option contracts are utilized primarily to limit the exposure affected by changes in foreign currency exchange rates on cash flows generated by anticipated intercompany transactions and intercompany accounts receivable and payable denominated in foreign currencies. The majority of written foreign currency option contracts are a part of range forward contract arrangements and expire in the same month with the corresponding purchased foreign currency option contracts.

Sony also enters into foreign exchange forward contracts, which effectively fix the cash flows from foreign currency denominated debt. Accordingly, these derivatives have been designated as cash flow hedges.

Foreign exchange forward contracts and foreign currency option contracts that do not qualify as hedges are marked-to-market with changes in value recognized in other income and expenses.

Foreign exchange forward contracts, foreign currency option contracts and currency swap agreements held by certain subsidiaries in the Financial Services segment are marked-to-market with changes in value recognized in financial service revenue.

Interest rate swap agreements (including interest rate and currency swap agreements)

Interest rate swap agreements are utilized primarily to lower funding costs, to diversify sources of funding and to limit Sony s exposure associated with underlying debt instruments and available-for-sale debt securities resulting from adverse fluctuations in interest rates, foreign currency exchange rates and changes in fair values. Interest rate swap agreements entered into in the Financial Services segment are used for reducing the risk arising from the changes in the fair value of fixed rate available-for-sale debt securities. These derivatives are considered to be a hedge against changes in the fair value of available-for-sale debt securities in the Financial Services segment. Accordingly, these derivatives have been designated as fair value hedges.

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Sony also enters into certain interest rate swap agreements for the purpose of reducing the risk arising from the changes in anticipated cash flows of variable rate debt and foreign currency denominated debt. These interest rate swap agreements, which effectively swap foreign currency denominated variable rate debt for functional currency denominated fixed rate debt, are considered to be a hedge against changes in the anticipated cash flows of Sony s foreign denominated variable rate obligations. Accordingly, these derivatives have been designated as cash flow hedges.

Certain subsidiaries in the Financial Services segment have interest rate swap agreements as part of their ALM, which are marked-to-market with changes in value recognized in financial service revenue.

Any other interest rate swap agreements that do not qualify as hedges, which are used for reducing the risk arising from changes of variable rate debt, are marked-to-market with changes in value recognized in other income and expenses.

Other agreements

Certain subsidiaries in the Financial Services segment have credit default swap agreements, equity future contracts, other currency contracts and hybrid financial instruments as part of their ALM, which are marked-to-market with changes in value recognized in financial services revenue. The hybrid financial instruments, disclosed in Note 7 as debt securities, contain embedded derivatives that are not required to be bifurcated because the entire instruments are carried at fair value.

The estimated fair values of Sony s outstanding derivative instruments are summarized as follows:

	Yen in millions					
	Balance sheet location	Fair value		Balance sheet location	Fair value	
Derivatives designated as hedging instruments	Asset derivatives	March 31 2012	March 31 2013	Liability derivatives	March 31 2012	March 31 2013
Interest rate contracts	Prepaid expenses and other current assets	151	2	Current liabilities other	14,017	1,227
Interest rate contracts	Assets other		254	Liabilities other	1,184	18,892
Foreign exchange contracts	Prepaid expenses and other current assets	11	5	Current liabilities other	15	15
		162	261		15,216	20,134

	Yen in millions					
	Balance sheet location	Fair value		Balance sheet location	Fair value	
Derivatives not designated as hedging instruments	Asset derivatives	March 31 2012	March 31 2013	Liability derivatives	March 31 2012	March 31 2013
Interest rate contracts	Prepaid expenses and other current assets	5		Current liabilities other	4,390	147
Interest rate contracts				Liabilities other		2,784
Foreign exchange contracts	Prepaid expenses and other current assets	18,345	20,706	Current liabilities other	21,612	18,933
Foreign exchange contracts	Assets other	5	895			
Credit contracts	Prepaid expenses and other current assets	1				
		18,356	21,601		26,002	21,864
Total derivatives		18,518	21,862		41,218	41,998

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Presented below are the effects of derivative instruments on the consolidated statements of income for the fiscal years ended March 31, 2011, 2012 and 2013.

Derivatives under fair value hedging relationships	Location of gain or (loss) recognized in income on derivative	Yen in millions Amount of gain or (loss) recognized in income on derivative Fiscal year ended March 31 2011	2012	2013
Interest rate contracts	Financial services revenue	588	(2,998)	(11,275)
Foreign exchange contracts	Foreign exchange gain or (loss), net	(18)	(49)	1
Total		570	(3,047)	(11,274)

Yen in millions
Fiscal year ended March 31, 2011

Derivatives under cash flow hedging relationships	Amount of gain or (loss) recognized in OCI on derivative Amount	Gain or (loss) reclassified from accumulated OCI into income (effective portion) Location	Amount	Gain or (loss) recognized in income on derivative (ineffective portion) Location	Amount
Interest rate contracts	(108)	Interest expense	329	Interest expense	
Total	(108)	Total	329	Total	

Yen in millions
Fiscal year ended March 31, 2012

Derivatives under cash flow hedging relationships	Amount of gain or (loss) recognized in OCI on derivative Amount	Gain or (loss) reclassified from accumulated OCI into income (effective portion) Location	Amount	Gain or (loss) recognized in income on derivative (ineffective portion) Location	Amount
Interest rate contracts	171	Interest expense	308	Interest expense	
Total	171	Total	308	Total	

Yen in millions
Fiscal year ended March 31, 2013

Derivatives under cash flow hedging relationships	Amount of gain or (loss) recognized in OCI on derivative Amount	Gain or (loss) reclassified from accumulated OCI into income (effective portion) Location	Amount	Gain or (loss) recognized in income on derivative (ineffective portion) Location	Amount

Interest rate contracts	(69)	Interest expense	615	Interest expense
Total	(69)	Total	615	Total

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At March 31, 2013, amounts related to derivatives qualifying as cash flow hedges amounted to a net reduction of equity of 742 million yen.

Derivatives not designated as hedging instruments	Location of gain or (loss) recognized in income on derivative	Amount of gain or (loss) recognized in income on derivative (Yen in millions) Fiscal year ended March 31 2011	2012	2013
Interest rate contracts	Financial services revenue	(3,332)	(3,303)	(2,779)
Interest rate contracts	Financial services expenses	32		
Foreign exchange contracts	Financial services revenue	(1,294)	(79)	7,202
Foreign exchange contracts	Foreign exchange gain or (loss), net	8,311	4,324	5,596
Bond contracts	Financial services revenue	44		
Credit contracts	Financial services revenue	(101)	(25)	(3)
Total		3,660	917	10,016

The following table summarizes additional information, including notional amounts, for each type of derivative:

	Yen in millions March 31, 2012 Notional amount	Fair value	March 31, 2013 Notional amount	Fair value
Foreign exchange contracts:				
Foreign exchange forward contracts	1,227,889	(7,305)	1,127,799	(7,185)
Currency option contracts purchased	9,878	91	1,296	44
Currency option contracts written	152	(1)	1,037	(6)
Currency swap agreements	519,041	2,206	459,019	9,507
Other currency contracts	48,347	1,743	58,294	298
Interest rate contracts:				
Interest rate swap agreements	451,416	(19,435)	529,642	(22,794)
Credit contracts:				
Credit default swap agreements	1,367	1		

15. *Pension and severance plans*

(1) Defined benefit and severance plans

Upon terminating employment, employees of Sony Corporation and its subsidiaries in Japan are entitled, under most circumstances, to lump-sum indemnities or pension payments as described below. In July 2004, Sony Corporation and certain of its subsidiaries amended their pension plans and introduced a point-based plan under which a point is added every year reflecting the individual employee s performance over that year. Under the point-based plan, the amount of payment is determined based on the sum of cumulative points from past services and interest points earned on the cumulative points regardless of whether or not the employee is voluntarily retiring.

Under the plans, in general, the defined benefits cover 65% of the indemnities under existing regulations to employees. The remaining indemnities are covered by severance payments by the companies. The pension

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benefits are payable at the option of the retiring employee either in a lump-sum amount or monthly pension payments. Contributions to the plans are funded through several financial institutions in accordance with the applicable laws and regulations.

From April 1, 2012, Sony Corporation and substantially all of its subsidiaries in Japan have modified existing defined benefit pension plans such that life annuities will no longer accrue additional service benefits, with those participants instead accruing fixed-term annuities. The defined benefit pension plans were closed to new participants and a defined contribution plan was also introduced.

In addition, several of Sony s foreign subsidiaries have defined benefit pension plans or severance indemnity plans, which cover substantially all of their employees. Under such plans, the related cost of benefits is currently funded or accrued. Benefits awarded under these plans are based primarily on the current rate of pay and length of service.

The components of net periodic benefit costs for the fiscal years ended March 31, 2011, 2012 and 2013 were as follows:

Japanese plans:

	Yen in millions Fiscal year ended March 31		
	2011	2012	2013
Service cost	29,589	29,774	25,343
Interest cost	16,067	15,196	14,606
Expected return on plan assets	(17,987)	(15,401)	(16,389)
Recognized actuarial loss	11,802	12,219	12,853
Amortization of prior service costs	(10,391)	(10,380)	(10,271)
Net periodic benefit costs	29,080	31,408	26,142

Foreign plans:

	Yen in millions Fiscal year ended March 31		
	2011	2012	2013
Service cost	4,160	3,348	2,387
Interest cost	11,165	10,082	10,197
Expected return on plan assets	(9,135)	(9,049)	(9,245)
Amortization of net transition asset	20	139	117
Recognized actuarial loss	2,911	2,771	1,781
Amortization of prior service costs	(32)	(448)	(566)
Losses (gains) on curtailments and settlements	(31)	1,111	(405)
Net periodic benefit costs	9,058	7,954	4,266

The estimated net actuarial loss, prior service cost and obligation (asset) existing at transition for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit costs over the next fiscal year are 13,797 million yen, 10,365 million yen and 12 million yen, respectively.

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The changes in the benefit obligation and plan assets as well as the funded status and composition of amounts recognized in the consolidated balance sheets were as follows:

	Japanese plans Yen in millions March 31		Foreign plans Yen in millions March 31	
	2012	2013	2012	2013
Change in benefit obligation:				
Benefit obligation at beginning of the fiscal year	735,853	789,059	206,497	221,641
Service cost	29,774	25,343	3,348	2,387
Interest cost	15,196	14,606	10,082	10,197
Plan participants contributions			684	619
Amendments	(1,119)		440	27
Actuarial loss	25,098	49,258	12,376	25,385
Foreign currency exchange rate changes			(3,273)	27,354
Curtailments and settlements	(301)		(577)	(2,106)
Effect of changes in consolidated subsidiaries	8,852	(15,061)	3,104	
Benefits paid	(24,294)	(36,161)	(11,040)	(10,576)
Benefit obligation at end of the fiscal year	789,059	827,044	221,641	274,928
Change in plan assets:				
Fair value of plan assets at beginning of the fiscal year	536,648	556,247	140,387	151,139
Actual return on plan assets	18,447	69,491	11,421	17,075
Foreign currency exchange rate changes			(1,872)	18,460
Employer contribution	15,745	10,369	9,033	10,501
Plan participants contributions			684	619
Curtailments and settlements			(1,386)	(351)
Effect of changes in consolidated subsidiaries	4,592	(7,003)	2,331	
Benefits paid	(19,185)	(21,100)	(9,459)	(9,424)
Fair value of plan assets at end of the fiscal year	556,247	608,004	151,139	188,019
Funded status at end of the fiscal year	(232,812)	(219,040)	(70,502)	(86,909)

Amounts recognized in the consolidated balance sheets consist of:

	Japanese plans Yen in millions March 31		Foreign plans Yen in millions March 31	
	2012	2013	2012	2013
Noncurrent assets	1,769	2,219	4,399	1,903
Current liabilities			(2,943)	(2,462)
Noncurrent liabilities	(234,581)	(221,259)	(71,958)	(86,350)
Ending balance	(232,812)	(219,040)	(70,502)	(86,909)

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Amounts recognized in accumulated other comprehensive income, excluding tax effects, consist of:

	Japanese plans Yen in millions March 31		Foreign plans Yen in millions March 31	
	2012	2013	2012	2013
Prior service cost (credit)	(75,840)	(64,194)	(2,933)	(2,753)
Net actuarial loss	292,382	264,559	38,196	62,686
Obligation existing at transition			52	35
Ending balance	216,542	200,365	35,315	59,968

The accumulated benefit obligations for all defined benefit pension plans were as follows:

	Japanese plans Yen in millions March 31		Foreign plans Yen in millions March 31	
	2012	2013	2012	2013
Accumulated benefit obligations	786,679	824,345	189,360	233,949

The projected benefit obligations, the accumulated benefit obligations and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were as follows:

	Japanese plans Yen in millions March 31		Foreign plans Yen in millions March 31	
	2012	2013	2012	2013
Projected benefit obligations	781,983	819,059	170,314	210,384
Accumulated benefit obligations	779,604	816,360	163,002	204,253
Fair value of plan assets	549,017	599,227	111,667	154,058

Weighted-average assumptions used to determine benefit obligations as of March 31, 2012 and 2013 were as follows:

	Japanese plans March 31		Foreign plans March 31	
	2012	2013	2012	2013
Discount rate	1.9%	1.5%	4.7%	4.1%
Rate of compensation increase	*	*	3.5	3.1

* Substantially all of Sony s Japanese pension plans were point-based. Point-based plans do not incorporate a measure of compensation rate increases.

Weighted-average assumptions used to determine the net periodic benefit costs for the fiscal years ended March 31, 2011, 2012 and 2013 were as follows:

	Japanese plans Fiscal year ended March 31			Foreign plans Fiscal year ended March 31		
	2011	2012	2013	2011	2012	2013
Discount rate	2.3%	2.1%	1.9%	5.5%	5.2%	4.7%
Expected return on plan assets	2.9	3.0	3.0	5.9	6.5	6.1
Rate of compensation increase	*	*	*	4.0	3.5	3.5

* Substantially all of Sony s Japanese pension plans were point-based. Point-based plans do not incorporate a measure of compensation rate increases.

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Sony reviews these assumptions for changes in circumstances.

The weighted-average rate of compensation increase is calculated based only on the pay-related plans. The point-based plans discussed above are excluded from the calculation because payments made under the plan are not based on employee compensation.

To determine the expected long-term rate of return on pension plan assets, Sony considers the current and expected asset allocations, as well as the historical and expected long-term rates of returns on various categories of plan assets. Sony s pension investment policy recognizes the expected growth and the variability risk associated with the long-term nature of pension liabilities, the returns and risks of diversification across asset classes, and the correlation among assets. The asset allocations are designed to maximize returns consistent with levels of liquidity and investment risk that are considered prudent and reasonable. While the pension investment policy gives appropriate consideration to recent market performance and historical returns, the investment assumptions utilized by Sony are designed to achieve a long-term return consistent with the long-term nature of the corresponding pension liabilities.

The investment objectives of Sony s plan assets are designed to generate returns that will enable the plans to meet their future obligations. The precise amount for which these obligations will be settled depends on future events, including the retirement dates and life expectancy of the plans participants. The obligations are estimated using actuarial assumptions, based on the current economic environment and other pertinent factors. Sony s investment strategy balances the requirement to generate returns, using potentially higher yielding assets such as equity securities, with the need to control risk in the portfolio with less volatile assets, such as fixed-income securities. Risks include, among others, inflation, volatility in equity values and changes in interest rates that could negatively impact the funding level of the plans, thereby increasing its dependence on contributions from Sony. To mitigate any potential concentration risk, thorough consideration is given to balancing the portfolio among industry sectors and geographies, taking into account interest rate sensitivity, dependence on economic growth, currency and other factors that affect investment returns. The target allocations as of March 31, 2013, are, as a result of Sony s asset liability management, 28% of equity securities, 58% of fixed income securities and 14% of other investments for the pension plans of Sony Corporation and most of its subsidiaries in Japan, and, on a weighted average basis, 40% of equity securities, 47% of fixed income securities and 13% of other investments for the pension plans of foreign subsidiaries.

The fair values of the assets held by Japanese and foreign plans, which are classified in accordance with the fair value hierarchy described in Note 2, are as follows:

	Japanese plans Yen in millions			
	Fair value at March 31,	Fair value measurements using inputs considered as		
Asset class	**2012**	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	14,586	14,586		
Equity:				
Equity securities[(a)]	130,283	127,918	2,365	
Fixed income:				
Government bonds[(b)]	255,010		255,010	
Corporate bonds[(c)]	23,853		23,853	
Asset-backed securities[(d)]	4,722		4,722	
Commingled funds[(e)]	58,862		58,862	
Commodity funds[(f)]	1,850		1,850	
Private equity[(g)]	23,388			23,388
Hedge funds[(h)]	42,258			42,258
Real estate	1,435			1,435
Total	556,247	142,504	346,662	67,081

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Asset class	Fair value at March 31, 2013	Japanese plans Yen in millions Fair value measurements using inputs considered as Level 1	Level 2	Level 3
Cash and cash equivalents	8,419	8,419		
Equity:				
Equity securities[(a)]	157,566	154,630	2,936	
Fixed income:				
Government bonds[(b)]	268,297		268,297	
Corporate bonds[(c)]	33,053		33,053	
Asset-backed securities[(d)]	2,797		2,797	
Commingled funds[(e)]	72,410		72,410	
Commodity funds[(f)]	1,712		1,712	
Private equity[(g)]	27,205			27,205
Hedge funds[(h)]	35,071			35,071
Real estate	1,474			1,474
Total	608,004	163,049	381,205	63,750

(a) Includes approximately 65 percent and 63 percent of Japanese equity securities, and 35 percent and 37 percent of foreign equity securities for the fiscal years ended March 31, 2012 and 2013, respectively.

(b) Includes approximately 64 percent and 59 percent of debt securities issued by Japanese national and local governments, and 36 percent and 41 percent of debt securities issued by foreign national and local governments for the fiscal years ended March 31, 2012 and 2013, respectively.

(c) Includes debt securities issued by Japanese and foreign corporation and government related agencies.

(d) Includes primarily mortgage-backed securities.

(e) Commingled funds represent pooled institutional investments, including primarily investment trusts. They include approximately 42 percent and 48 percent of investments in equity, 56 percent and 48 percent of investments in fixed income, and 2 percent and 4 percent of investments in other for the fiscal years ended March 31, 2012 and 2013, respectively.

(f) Represents commodity futures funds.

(g) Includes multiple private equity funds of funds that primarily invest in venture, buyout, and distressed markets in the U.S. and Europe.

(h) Includes primarily funds that invest in a portfolio of a broad range of hedge funds to diversify the risks and reduce the volatilities associated with a single hedge fund.

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Asset class	Fair value at March 31, 2012	Foreign plans Yen in millions Fair value measurements using inputs considered as Level 1	Level 2	Level 3
Cash and cash equivalents	859	859		
Equity:				
Equity securities[a]	36,497	30,514	5,983	
Fixed income:				
Government bonds[b]	43,504		43,504	
Corporate bonds[c]	9,192		5,231	3,961
Asset-backed securities	648		648	
Insurance contracts[d]	9,283		9,283	
Commingled funds[e]	43,902		43,902	
Real estate and other[f]	7,254	20	2,151	5,083
Total	151,139	31,393	110,702	9,044

Asset class	Fair value at March 31, 2013	Foreign plans Yen in millions Fair value measurements using inputs considered as Level 1	Level 2	Level 3
Cash and cash equivalents	171	171		
Equity:				
Equity securities[a]	36,917	29,348	7,569	
Fixed income:				
Government bonds[b]	52,061		52,061	
Corporate bonds[c]	20,095		15,322	4,773
Asset-backed securities	526		526	
Insurance contracts[d]	11,639		11,639	
Commingled funds[e]	58,007		58,007	
Real estate and other[f]	8,603	73	1,573	6,957
Total	188,019	29,592	146,697	11,730

(a) Includes primarily foreign equity securities.

(b) Includes primarily foreign government debt securities.

(c) Includes primarily foreign corporate debt securities.

(d) Represents annuity contracts with or without profit sharing.

(e) Commingled funds represent pooled institutional investments including mutual funds, common trust funds, and collective investment funds. They are primarily comprised of foreign equities and fixed income investments.

(f) Includes primarily private real estate investment trusts.

Each level in the fair value hierarchy in which each plan asset is classified is determined based on inputs used to measure the fair values of the asset, and does not necessarily indicate the risks or rating of the asset.

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The following is a description of the valuation techniques used to measure Japanese and foreign plan assets at fair value. There were no changes in valuation techniques during the fiscal years ended March 31, 2012 and 2013.

Equity securities are valued at the closing price reported in the active market in which the individual securities are traded. These assets are generally classified as level 1.

The fair value of fixed income securities is typically estimated using pricing models, quoted prices of securities with similar characteristics or discounted cash flows and are generally classified as level 2.

Commingled funds are typically valued using the net asset value provided by the administrator of the fund and reviewed by Sony. The net asset value is based on the value of the underlying assets owned by the fund, minus liabilities and divided by the number of shares or units outstanding. These assets are classified as level 1, level 2 or level 3 depending on availability of quoted market prices.

Commodity funds are valued using inputs that are derived principally from or corroborated by observable market data. These assets are generally classified as level 2.

Private equity and private real estate investment trust valuations require significant judgment due to the absence of quoted market prices, the inherent lack of liquidity and the long-term nature of such assets. These assets are initially valued at cost and are reviewed periodically utilizing available and relevant market data to determine if the carrying value of these assets should be adjusted. These investments are classified as level 3. The valuation methodology is applied consistently from period to period.

Hedge funds are valued using the net asset value as determined by the administrator or custodian of the fund. These investments are classified as level 3.

The following table sets forth a summary of changes in the fair values of Japanese and foreign plans level 3 assets for the fiscal years ended March 31, 2012 and 2013:

	Japanese plans Yen in millions Fair value measurement using significant unobservable inputs (Level 3)			
	Private equity	**Hedge funds**	**Real estate**	**Total**
Beginning balance at April 1, 2011	19,888	43,688	1,533	65,109
Return on assets held at end of year	450	470	(98)	822
Return on assets sold during the year				
Purchases, sales, and settlements, net	3,050	(1,900)		1,150
Transfers, net				
Ending balance at March 31, 2012	23,388	42,258	1,435	67,081
Return on assets held at end of year	3,817	(1,514)	39	2,342
Return on assets sold during the year				
Purchases, sales, and settlements, net		(5,673)		(5,673)
Transfers, net				
Ending balance at March 31, 2013	27,205	35,071	1,474	63,750

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	Foreign plans Yen in millions Fair value measurement using significant unobservable inputs (Level 3)			
	Corporate bonds	Commingled funds	Real estate and other	Total
Beginning balance at April 1, 2011	4,846	530	3,773	9,149
Return on assets held at end of year	447		558	1,005
Return on assets sold during the year				
Purchases, sales, and settlements, net	(1,209)	(530)	156	(1,583)
Transfers, net				
Other*	(123)		596	473
Ending balance at March 31, 2012	3,961		5,083	9,044
Return on assets held at end of year	260		245	505
Return on assets sold during the year	1			1
Purchases, sales, and settlements, net	(20)		(23)	(43)
Transfers, net				
Other*	571		1,652	2,223
Ending balance at March 31, 2013	4,773		6,957	11,730

* Primarily consists of translation adjustments.

Sony makes contributions to its defined benefit pension plans as deemed appropriate by management after considering the fair value of plan assets, expected return on plan assets and the present value of benefit obligations. Sony expects to contribute approximately 22 billion yen to the Japanese plans and approximately 8 billion yen to the foreign plans during the fiscal year ending March 31, 2014. At the end of the fiscal year ended March 31, 2012, Sony had expected to contribute approximately 18 billion yen to the Japanese plans. However, Sony actually contributed 19 billion yen to the plans in the fiscal year ended March 31, 2013.

The expected future benefit payments are as follows:

Fiscal year ending March 31	Japanese plans Yen in millions	Foreign plans Yen in millions
2014	27,762	10,314
2015	30,427	11,022
2016	32,921	10,658
2017	34,154	11,306
2018	36,391	11,937
2019 2023	218,706	68,135

(2) Defined contribution plans

Total defined contribution expenses for the fiscal years ended March 31, 2011, 2012 and 2013 were as follows:

	Yen in millions Fiscal year ended March 31		
	2011	**2012**	**2013**
Japanese plans	9	464	3,729
Foreign plans	4,350	6,726	13,070

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16. ***Stockholders equity***

(1) Common stock:

Changes in the number of shares of common stock issued and outstanding during the fiscal years ended March 31, 2011, 2012 and 2013 have resulted from the following:

	Number of shares
Balance at March 31, 2010	1,004,571,464
Exercise of stock acquisition rights	65,200
Balance at March 31, 2011	1,004,636,664
Exercise of stock acquisition rights	1,500
Balance at March 31, 2012	1,004,638,164
Stock issued under exchange offering	7,312,042
Balance at March 31, 2013	1,011,950,206

At March 31, 2013, 175,821,611 shares of common stock would be issued upon the conversion or exercise of all convertible bonds and stock acquisition rights outstanding.

Conversions of convertible bonds into common stock are accounted for in accordance with the provisions of the Companies Act of Japan (*Kaishaho*) and related regulations (collectively the Companies Act) by crediting approximately one-half of the conversion proceeds to the common stock account and the remainder to the additional paid-in capital account.

Sony Corporation may purchase its own shares at any time by a resolution of the Board of Directors up to the retained earnings available for dividends to shareholders, in accordance with the Companies Act. No common stock had been acquired by the resolution of the Board of Directors during the fiscal years ended March 31, 2011, 2012 and 2013.

(2) Retained earnings:

The amount of statutory retained earnings of Sony Corporation available for dividends to shareholders as of March 31, 2013 was 325,539 million yen. The appropriation of retained earnings for the fiscal year ended March 31, 2013, including cash dividends for the six-month period ended March 31, 2013, has been incorporated in the accompanying consolidated financial statements. This appropriation of retained earnings was approved at the meeting of the Board of Directors of Sony Corporation held on May 8, 2013 and was then recorded in the statutory books of account, in accordance with the Companies Act.

Retained earnings include Sony s equity in undistributed earnings of affiliated companies accounted for by the equity method in the amount of 7,891 million yen and 19,080 million yen at March 31, 2012 and 2013, respectively.

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(3) Other comprehensive income:

Other comprehensive income for the fiscal years ended March 31, 2011, 2012 and 2013 were comprised of the following:

	Yen in millions		
	Pre-tax amount	Tax benefit/(expense)	Net-of-tax amount
For the fiscal year ended March 31, 2011:			
Unrealized gains (losses) on securities, net			
Unrealized holding losses arising during the period*	(42,311)	12,996	(25,445)
Less: Reclassification adjustment included in net income	21,548	(8,104)	13,444
Unrealized gains (losses) on derivative instruments, net			
Unrealized holding losses arising during the period	(662)	52	(610)
Less: Reclassification adjustment included in net income	(785)	(158)	(943)
Pension liability adjustment*	3,164	(6,463)	(3,176)
Foreign currency translation adjustments			
Translation adjustments arising during the period	(118,840)	1,256	(117,584)
Less: Reclassification adjustment included in net income	(832)		(832)
Other comprehensive income (loss)	(138,718)	(421)	(135,146)

	Yen in millions		
	Pre-tax amount	Tax benefit/(expense)	Net-of-tax amount
For the fiscal year ended March 31, 2012:			
Unrealized gains (losses) on securities, net			
Unrealized holding gains arising during the period*	28,712	(10,162)	12,369
Less: Reclassification adjustment included in net income	3,417	(1,240)	2,177
Unrealized gains (losses) on derivative instruments, net			
Unrealized holding losses arising during the period	(177)	(70)	(247)
Less: Reclassification adjustment included in net income	911	(125)	786
Pension liability adjustment*	(29,239)	(3,934)	(34,668)
Foreign currency translation adjustments			
Translation adjustments arising during the period*	(32,640)	74	(32,961)
Less: Reclassification adjustment included in net income	14,655		14,655
Other comprehensive income (loss)	(14,361)	(15,457)	(37,889)

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	Pre-tax amount	Yen in millions Tax benefit/(expense)	Net-of-tax amount
For the fiscal year ended March 31, 2013:			
Unrealized gains (losses) on securities, net			
Unrealized holding gains arising during the period*	112,049	(35,413)	62,537
Less: Reclassification adjustment included in net income	(34,686)	14,328	(20,358)
Unrealized gains (losses) on derivative instruments, net			
Unrealized holding losses arising during the period	(69)	12	(57)
Less: Reclassification adjustment included in net income	615	(250)	365
Pension liability adjustment*	(8,476)	1,853	(4,983)
Foreign currency translation adjustments			
Translation adjustments arising during the period*	160,425	(2,534)	159,149
Less: Reclassification adjustment included in net income	3,927		3,927
Other comprehensive income (loss)	233,785	(22,004)	200,580

* Amounts allocable to the noncontrolling interests in the equity of a subsidiary and other are deducted from the net-of-tax amount for unrealized holding gains on securities, pension liability adjustment and foreign currency translation adjustments arising during the period.

During the fiscal years ended March 31, 2011, 2012 and 2013, gains of 832 million yen, losses of 14,655 million yen and losses of 3,927 million yen, respectively, of foreign currency translation adjustments were transferred from accumulated other comprehensive income to net income as a result of the liquidation or sale of certain foreign subsidiaries and affiliates. The amount transferred during the fiscal year ended March 31, 2012 includes losses of 12,772 million yen as a result of the other-than-temporary impairment loss on the shares of S-LCD. Refer to Note 5.

(4) Equity transactions with noncontrolling interests:

Net income (loss) attributable to Sony Corporation s stockholders and transfers (to) from the noncontrolling interests for the fiscal years ended March 31, 2011, 2012 and 2013 were as follows:

	Yen in millions Fiscal year ended March 31 2011	2012	2013
Net income (loss) attributable to Sony Corporation s stockholders	(259,585)	(456,660)	43,034
Transfers (to) from the noncontrolling interests:			
Decrease in additional paid-in capital for purchase of additional shares in consolidated subsidiaries	(100)	(640)	(57,364)
Change from net income (loss) attributable to Sony Corporation s stockholders and transfers (to) from the noncontrolling interests	(259,685)	(457,300)	(14,330)

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In September 2012, Sony conducted a tender offer to purchase additional common shares of So-net Entertainment Corporation (So-net). As a result, Sony s equity ownership increased to 95.95%. On January 1, 2013, Sony acquired the remaining 4.05% equity ownership of So-net through a share exchange. The difference between cash consideration paid or the fair value of the shares of Sony delivered to the noncontrolling interests and the decrease in the carrying amount of the noncontrolling interests was recognized as a decrease to additional paid-in capital of 38,715 million yen.

In March, 2013, Sony completed the acquisition of an additional 32.39% of the shares of Multi Screen Media Private Limited (MSM), which operates television networks in India. As a result of this transaction, Sony s total equity interest in MSM increased to 94.39%. The aggregate cash consideration for the additional shares was 271 million U.S. dollars, of which 145 million U.S. dollars was paid at the closing of the transaction. An additional 42 million U.S. dollars was paid on April, 15, 2013. The remaining 84 million U.S. dollars will be paid in two equal annual installments of 42 million U.S. dollars on April 15, 2014 and April 15, 2015. The difference between cash consideration paid and the decrease in the carrying amount of the noncontrolling interests was recognized as a decrease to additional paid-in capital of 18,450 million yen.

17. ***Stock-based compensation plans***

The stock-based compensation expense for the fiscal years ended March 31, 2011, 2012 and 2013 was 1,952 million yen, 1,952 million yen and 1,232 million yen, respectively. The income tax benefit related to the stock-based compensation expense for the fiscal years ended March 31, 2011, 2012 and 2013 was 322 million yen, 287 million yen and 209 million yen, respectively. The total cash received from exercises under all of the stock-based compensation plans during the fiscal years ended March 31, 2011 and 2012 was 198 million yen and 4 million yen, respectively. Sony issued new shares upon exercise of these rights. During the fiscal year ended March 31, 2013, there were no exercises under the stock-based compensation plans. The actual income tax benefit realized for tax deductions from exercises under all the stock-based compensation plans for the fiscal years ended March 31, 2011, 2012 and 2013 was insignificant.

During the fiscal year ended March 31, 2013, the remaining outstanding stock appreciation rights (SARs) expired unexercised and the plan was subsequently terminated. The SARs were granted to certain employees in the United States of America and the employees received cash equal to the amount that the market price of Sony Corporation s common stock exceeded the strike price of the SARs upon exercise of such rights.

There were no SARs granted or exercised during the fiscal years ended March 31, 2011, 2012 and 2013 and SARs compensation expense for the fiscal years ended March 31, 2011, 2012, and 2013 was insignificant.

Sony has a single remaining stock-based compensation plan as an incentive plan for selected directors, corporate executive officers and employees in the form of a stock acquisition rights plan. The stock acquisition rights generally have three year graded vesting schedules and are exercisable up to ten years from the date of grant.

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The weighted-average fair value per share at the date of grant of stock acquisition rights granted during the fiscal years ended March 31, 2011, 2012 and 2013 was 1,036 yen, 345 yen and 189 yen, respectively. The fair value of stock acquisition rights granted on the date of grant and used to recognize compensation expense for the fiscal years ended March 31, 2011, 2012 and 2013 was estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Fiscal year ended March 31		
	2011	2012	2013
Weighted-average assumptions			
Risk-free interest rate	1.60%	1.08%	0.74%
Expected lives	6.64 years	6.77 years	6.85 years
Expected volatility*	35.74%	36.88%	39.61%
Expected dividends	0.83%	1.85%	3.25%

* Expected volatility was based on the historical volatilities of Sony Corporation s common stock over the expected life of the stock acquisition rights.

A summary of the activities regarding the stock acquisition rights plan during the fiscal year ended March 31, 2013 is as follows:

	Fiscal year ended March 31, 2013			
	Number of shares	Weighted-average exercise price Yen	Weighted-average remaining life Years	Total intrinsic value Yen in millions
Outstanding at beginning of the fiscal year	18,880,300	3,188		
Granted	1,915,000	933		
Exercised				
Forfeited or expired	1,713,500	3,914		
Outstanding at end of the fiscal year	19,081,800	3,124	5.56	1,238
Exercisable at end of the fiscal year	14,629,300	3,570	4.55	

The total intrinsic value of shares exercised under the stock acquisition rights plan during the fiscal years ended March 31, 2011 and 2012 was 26 million yen and 0.2 million yen, respectively. During the fiscal year ended March 31, 2013, there were no exercises under the stock acquisition rights plan.

As of March 31, 2013, there was 663 million yen of total unrecognized compensation expense related to nonvested stock acquisition rights. This expense is expected to be recognized over a weighted-average period of 1.9 years.

18. *Great East Japan Earthquake and Thai Floods*

(1) Great East Japan Earthquake

On March 11, 2011, Japan experienced a massive earthquake and tsunami (the Great East Japan Earthquake). The disaster caused significant damage to certain fixed assets including buildings, machinery and equipment as well as inventories in manufacturing sites and warehouses located principally in northeastern Japan.

For the fiscal year ended March 31, 2011, Sony incurred incremental losses and expenses including repair, removal and cleaning costs directly related to the damage caused by the disaster of 10,897 million yen, including

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the disposal or impairment of fixed assets of 7,668 million yen. These losses and expenses were primarily recorded in other operating (income) expense, net in the consolidated statements of income and were offset by insurance recoveries of 10,841 million yen, the amount that was deemed probable up to the extent of the corresponding losses recognized, as described below. The restoration costs anticipated to occur on or after April 1, 2011 were not recorded in the period ended March 31, 2011. In addition, Sony also incurred other losses and expenses of 11,821 million yen, which included idle facility costs at manufacturing sites, and an additional provision for life insurance policy reserves. These losses and expenses were primarily recorded in cost of sales and financial services expenses in the consolidated statements of income.

For the fiscal year ended March 31, 2012, Sony incurred incremental losses and expenses including repair, removal, restoration and cleaning costs directly related to the damage caused by the disaster of 5,864 million yen. These losses and expenses were primarily recorded in cost of sales in the consolidated statements of income and were partially offset by insurance recoveries of 2,159 million yen, as described below. In addition, Sony also incurred other losses and expenses of 6,294 million yen, which included idle facility costs at manufacturing sites. These losses and expenses were primarily recorded in cost of sales in the consolidated statements of income.

Sony has insurance policies which cover certain damage directly caused by the Great East Japan Earthquake for Sony Corporation and certain of its subsidiaries including manufacturing sites. The insurance policies cover the damage and costs associated with fixed assets and inventories and provide business interruption coverage, including lost profits.

Insurance claims in the amount of 15,000 million yen, the total coverage amount, were agreed to by the insurance carriers as a final settlement and were paid in March 2012. Of this amount, 2,000 million yen was due to a certain carrier as reinsurance. The amount was recorded in other current liabilities in the consolidated balance sheets as of March 31, 2012 and was paid in the fiscal year ended March 31, 2013. The insurance proceeds were primarily included in investing activities in the consolidated statements of cash flows.

(2) Thai Floods

In October 2011, certain of Sony s Thailand subsidiaries temporarily closed operations due to significant floods (the Floods). The Floods caused significant damage to certain fixed assets including buildings, machinery and equipment as well as inventories in manufacturing sites and warehouses located in Thailand. In addition, the Floods impacted the operations of certain Sony subsidiaries in Japan and other countries.

For the fiscal year ended March 31, 2012, Sony incurred incremental losses and expenses including repair, removal and cleaning costs directly related to the damage caused by the Floods of 13,236 million yen, including the disposal or impairment of fixed assets of 7,882 million yen. These losses and expenses were primarily recorded in other operating (income) expense, net in the consolidated statements of income and were offset by insurance recoveries as described below. The restoration costs are recorded when the services are rendered and liabilities incurred. In addition, Sony also incurred other losses and expenses of 13,899 million yen, which included idle facility costs at manufacturing sites and other additional expenses. These losses and expenses were mainly recorded in cost of sales in the consolidated statements of income.

For the fiscal year ended March 31, 2013, Sony incurred other additional expenses of 4,529 million yen which were primarily recorded in cost of sales in the consolidated statements of income.

Sony has insurance policies which cover certain damage directly caused by the Floods for Sony Corporation and certain of its subsidiaries including manufacturing sites. The insurance policies cover the damage and costs associated with fixed assets, inventories and additional expenses including removal and cleaning costs and provide business interruption coverage, including lost profits.

Insurance claims in the amount of 50,416 million yen were agreed to by the insurance carriers and were paid during the fiscal year ended March 31, 2012. Of this amount, Sony received 26,316 million yen for fixed assets,

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inventories and additional expenses, of which 17,520 million yen represents the portion of insurance recoveries in excess of the carrying value before the damage caused by the Floods of the insured fixed assets and inventories, and were recorded in cost of sales and other operating (income) expense, net in the consolidated statements of income. The remaining amount of the insurance claims paid of 24,100 million yen was for business interruption insurance recoveries, which applies to the lost profit which occurred after the Floods to December 31, 2011, and were recorded in other operating revenue in the consolidated statements of income. The insurance proceeds for fixed assets and for other than fixed assets are included in investing activities and operating activities in the consolidated statements of cash flows, respectively.

In addition, as of March 31, 2012, Sony still had pending insurance claims for damage to fixed assets, inventories, additional expenses and business interruption. Sony recorded insurance receivables of 5,788 million yen which represents the portion of the insurance claims that were deemed probable of collection up to the extent of the amount of corresponding losses recognized in the same period and substantially all relate to damaged assets and inventories. Sony concluded that the recoveries from these insurance claims are probable based on the coverage under valid policies, communications with the insurance carriers, Sony s past claims history with the insurance carriers, and Sony s assessment that the insurance carriers have the financial ability to pay the claims. These receivables were primarily recorded in prepaid expenses and other current assets in the consolidated balance sheets.

For the fiscal year ended March 31, 2013, insurance claims in the amount of 53,316 million yen were agreed to by the insurance carriers. Of this amount, Sony received 25,284 million yen for fixed assets, inventories and additional expenses, of which 11,961 million yen primarily represents the portion of insurance recoveries in excess of the carrying value before the damage caused by the Floods of the insured fixed assets and inventories, and were recorded in cost of sales and other operating (income) expense, net in the consolidated statements of income. The remaining amount of the insurance claims paid of 28,032 million yen was for business interruption insurance recoveries, which applies to the lost profit which occurred from January 1, 2012 through the end of the indemnity periods in addition to the unsettled portion of insurance claimed in the fiscal year ended March 31, 2012 and was recorded in other operating revenue in the consolidated statements of income. The insurance proceeds for fixed assets and for other than fixed assets are included in investing activities and operating activities in the consolidated statements of cash flows, respectively.

In addition, as of March 31, 2013, Sony still had pending insurance claims for additional expenses and business interruption. Sony recorded insurance receivables of 2,482 million yen which relate to additional expenses and business interruption claims agreed to by the insurance carriers prior to the fiscal year end and paid by April 19, 2013 and advance payments of 3,555 million yen for repairs and other costs to be incurred. These receivables and advance payments were recorded in prepaid expenses and other current assets and other current liabilities in the consolidated balance sheets, respectively.

19. ***Restructuring charges and asset impairments***

As part of its effort to improve the performance of the various businesses, Sony has undertaken a number of restructuring initiatives. Sony defines restructuring initiatives as activities initiated by Sony, such as exiting a business or product category or implementing a headcount reduction program, which are designed to generate a positive impact on future profitability. The restructuring activities are generally short term in nature and are generally completed within one year of initiation. For the fiscal years ended March 31, 2011, 2012 and 2013, Sony recorded total restructuring charges of 62,318 million yen, 52,645 million yen and 74,386 million yen, respectively.

Sony anticipates recording approximately 50 billion yen of restructuring charges for the fiscal year ending March 31, 2014.

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The changes in the accrued restructuring charges for the fiscal years ended March 31, 2011, 2012 and 2013 are as follows:

	Yen in millions			
	Employee termination benefits	Non-cash write-downs and disposals, net*	Other associated costs	Total
Balance at March 31, 2010	27,218		8,962	36,180
Restructuring costs	38,264	8,294	15,760	62,318
Non-cash charges		(8,294)		(8,294)
Cash payments	(47,521)		(19,086)	(66,607)
Adjustments	(2,376)		(662)	(3,038)
Balance at March 31, 2011	15,585		4,974	20,559
Sony Ericsson acquisition	8,789		2,190	10,979
Restructuring costs	25,453	20,428	6,764	52,645
Non-cash charges		(20,428)		(20,428)
Cash payments	(24,928)		(4,862)	(29,790)
Adjustments	98		(1,130)	(1,032)
Balance at March 31, 2012	24,997		7,936	32,933
Restructuring costs	62,752	5,161	6,473	74,386
Non-cash charges		(5,161)		(5,161)
Cash payments	(58,518)		(9,722)	(68,240)
Adjustments	3,498		988	4,486
Balance at March 31, 2013	32,729		5,675	38,404

* Significant asset impairments excluded from restructuring charges are described below.

The total amount of costs incurred in connection with these restructuring programs by segment for the fiscal years ended March 31, 2011, 2012 and 2013 are as follows:

	Yen in millions		
	Fiscal year ended March 31		
	2011	2012	2013
Imaging Products & Solutions	11,527	1,278	11,179
Game	4,097	519	250
Mobile Products & Communications*	2,451	1,859	5,885
Home Entertainment & Sound	18,989	5,007	11,815
Devices	7,839	26,373	19,096
Pictures	2,722	1,273	1,081
Music	2,662	5,710	2,305
Financial Services	5,010	1,822	
All Other and Corporate	7,021	8,804	22,775
Total net charges	62,318	52,645	74,386

* Sony acquired Ericsson s shares in Sony Ericsson and it became a wholly-owned subsidiary of Sony. Subsequent to the acquisition, Sony Ericsson was renamed Sony Mobile which is included in the MP&C segment. Refer to Note 24.

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In addition to the restructuring charges in the tables above, Sony recorded in cost of sales 4,751 million, 2,115 million yen and 3,121 million yen of non-cash charges related to depreciation associated with restructured assets for the fiscal years ended March 31, 2011, 2012 and 2013, respectively. Depreciation associated with restructured assets as used in the context of the disclosures regarding restructuring activity refers to the increase in depreciation expense caused by shortening the useful life or updating the salvage value of depreciable fixed assets to coincide with the end of production under an approved restructuring plan. Any impairment of the asset is recognized immediately in the period.

Imaging Products & Solutions segment

In an effort to improve the performance of the IP&S segment, Sony has undergone a number of restructuring efforts to reduce its operating costs. These efforts included headcount reduction programs, initiatives to advance rationalization of manufacturing operations, shifting and aggregating manufacturing to low-cost areas, and utilizing the services of third-party original equipment and design manufacturers (OEMs and ODMs). Significant restructuring activities are as follows:

Retirement programs -

In an effort to improve the performance of the IP&S segment, Sony has undergone several headcount reduction programs to further reduce operating costs. Through measures including the realignment of its manufacturing sites, a review of its development and design structure, and the streamlining of its sales and administrative functions, Sony has continued to implement a company-wide (including headquarters) rationalization. Sony intends to reallocate and optimize its workforce through programs including work reassignments and outplacements. As a result of these measures, Sony recorded in the IP&S segment restructuring charges related mainly to employee termination benefits totaling 9,510 million yen, 3,080 million yen and 9,659 million yen for the fiscal years ended March 31, 2011, 2012 and 2013, respectively, in selling, general and administrative expenses in the consolidated statements of income. These staff reductions were achieved worldwide mostly through the implementation of early retirement programs, including headcount reductions at Sony Corporation and major consolidated electronics subsidiaries in Japan and the closure of a production facility in Japan to streamline organizations of the electronics business operations and increase operational efficiency as announced on October 19, 2012. Sony will continue to implement programs to reduce headcount by streamlining business operations, including closure and consolidation of manufacturing sites, and the consolidation of headquarters and administrative functions.

Game segment

In an effort to improve the performance of the Game segment, Sony has undergone a number of restructuring efforts to reduce its operating costs.

The resulting restructuring charges, included in the table above, were related mainly to employee termination benefits in selling, general and administrative expenses and an impairment of assets in other operating (income) expense in the consolidated statements of income.

Mobile Products & Communications segment

In an effort to improve the performance of the MP&C segment, Sony has undergone a number of restructuring efforts to reduce its operating costs. These efforts included headcount reduction programs, initiatives to advance rationalization of manufacturing operations and shifting and aggregating manufacturing to low-cost areas. Significant restructuring activities are as follows:

Retirement programs -

In an effort to improve the performance of the MP&C segment, Sony has undergone several headcount reduction programs to further reduce operating costs. Through measures including the realignment of its

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manufacturing sites, a review of its development and design structure, and the streamlining of its sales and administrative functions, Sony has continued to implement a company-wide (including headquarters) rationalization. Sony intends to reallocate and optimize its workforce through programs including work reassignments and outplacements. As a result of these measures, Sony recorded in the MP&C segment restructuring charges related mainly to employee termination benefits totaling 2,130 million yen, 1,812 million yen and 4,959 million yen for the fiscal years ended March 31, 2011, 2012 and 2013, respectively, in selling, general and administrative expenses in the consolidated statements of income. These staff reductions were achieved worldwide mostly through the implementation of early retirement programs, including headcount reductions at Sony Corporation and major consolidated electronics subsidiaries in Japan to streamline organizations of the electronics business operations and increase operational efficiency as announced on October 19, 2012. Sony will continue to implement programs to reduce headcount by streamlining business operations, including the closure and consolidation of manufacturing sites, and the consolidation of headquarters and administrative functions.

During the fiscal year ended March 31, 2012, as a result of the acquisition of Sony Ericsson, which was subsequently renamed Sony Mobile, Sony reflected in the consolidated balance sheets 10,979 million yen of restructuring liabilities which related to restructuring activities undertaken by Sony Ericsson prior to Sony s acquisition of Ericsson s 50% equity interest in Sony Ericsson, but which had not yet been paid or settled by Sony Ericsson. The restructuring liability related to activities previously accrued by Sony Ericsson but which were unpaid as of the acquisition date representing severance costs of 8,789 million yen and other associated costs of 2,190 million yen.

Home Entertainment & Sound segment

In an effort to improve the performance of the HE&S segment, Sony has undergone a number of restructuring efforts to reduce its operating costs. These efforts included headcount reduction programs, initiatives to advance rationalization of manufacturing operations, shifting and aggregating manufacturing to low-cost areas, and utilizing the services of third-party original equipment and design manufacturers (OEMs and ODMs). Significant restructuring activities are as follows:

Retirement programs -

In an effort to improve the performance of the HE&S segment, Sony has undergone several headcount reduction programs to further reduce operating costs. Through measures including the realignment of its manufacturing sites, a review of its development and design structure, and the streamlining of its sales and administrative functions, Sony has continued to implement a company-wide (including headquarters) rationalization. Sony intends to reallocate and optimize its workforce through programs including work reassignments and outplacements. As a result of these measures, Sony recorded in the HE&S segment restructuring charges related mainly to employee termination benefits totaling 8,679 million yen, 4,548 million yen and 10,647 million yen for the fiscal years ended March 31, 2011, 2012 and 2013, respectively, in selling, general and administrative expenses in the consolidated statements of income. These staff reductions were achieved worldwide mostly through the implementation of early retirement programs, including headcount reductions at Sony Corporation and major consolidated electronics subsidiaries in Japan to streamline organizations of the electronics business operations and increase operational efficiency as announced on October 19, 2012. Sony will continue to implement programs to reduce headcount by streamlining business operations, including the closure and consolidation of manufacturing sites, and the consolidation of headquarters and administrative functions.

Sales and transfers of manufacturing operations outside of Japan -

During the fiscal year ended March 31, 2011, Sony sold and transferred certain manufacturing operations outside of Japan to third parties to reduce operating costs. The resulting restructuring charges included expenses

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of 11,583 million yen related to the transfer of a factory in Barcelona and the impairment of related assets, including restructuring charges related to employee termination benefits of 1,963 million yen which was included in the termination benefit for the retirement program described above.

Cash flows from the sales and transfers of manufacturing operations are included in sales of businesses in the consolidated statements of cash flows.

Devices segment

In an effort to improve the performance of the Devices segment, Sony has undergone a number of restructuring efforts to reduce operating costs. These efforts included headcount reduction programs, initiatives to advance rationalization of manufacturing operations and shifting and aggregating manufacturing to low-cost areas. Significant restructuring activities are as follows:

Retirement programs -

In an effort to improve the performance of the Devices segment, Sony has undergone several headcount reduction programs to further reduce operating costs. Through measures including the realignment of its manufacturing sites, a review of its development and design structure, and the streamlining of its sales and administrative functions, Sony has continued to implement a company-wide (including headquarters) rationalization. Sony intends to reallocate and optimize its workforce through programs including work reassignments and outplacements. As a result of these measures, Sony recorded in the Devices segment restructuring charges related mainly to employee termination benefits totaling 7,474 million yen, 5,445 million yen and 15,153 million yen for the fiscal years ended March 31, 2011, 2012 and 2013, respectively, in selling, general and administrative expenses in the consolidated statements of income. These staff reductions were achieved worldwide mostly through the implementation of early retirement programs, including headcount reductions at Sony Corporation and major consolidated electronics subsidiaries in Japan to streamline organizations of the electronics business operations and increase operational efficiency as announced on October 19, 2012. Sony will continue to implement programs to reduce headcount by streamlining business operations, including closure and consolidation of manufacturing sites, and the consolidation of headquarters and administrative functions.

Sale and asset-impairment of small- and medium-sized TFT LCD business -

As described in Note 25, Sony sold its small- and medium-sized TFT LCD business to Japan Display Inc. During the fiscal year ended March 31, 2012, Sony recorded an impairment loss of 19,187 million yen in other operating (income) expense, net in the consolidated statements of income, as the long-lived assets used by the business were classified as held for sale and recorded at the lesser of carrying value or fair value.

Pictures segment

In an effort to improve the performance of the Pictures segment, Sony has undergone a number of restructuring efforts to reduce operating costs and rationalize certain operations.

The resulting restructuring charges, included in the table above, were related mainly to employee termination benefits and included in selling, general and administrative expenses in the consolidated statements of income.

Music segment

In an effort to improve the performance of the Music segment due to the continued contraction of the physical music market, Sony has undergone a number of restructuring efforts to reduce operating costs.

The resulting restructuring charges, included in the table above, were related mainly to employee termination benefits and included in selling, general and administrative expenses in the consolidated statements of income.

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Financial Services segment

In an effort to improve the performance of the Financial Services segment, Sony has undergone restructuring efforts to reduce operating costs.

During the fiscal year ended March 31, 2011, Sony recorded restructuring charges of 3,371 million yen in financial service expenses and 1,639 million yen in other operating (income) expense, net in the consolidated statements of income. These restructuring charges related mainly to the partial sale of a leasing and credit card business.

Cash flows from the partial sale of a leasing and credit card business are included in sales of businesses in the consolidated statements of cash flows.

All Other and Corporate

The resulting restructuring charges, included in the table above, were related mainly to employee termination benefits, including headcount reductions at Sony Corporation and major consolidated electronics subsidiaries in Japan to streamline organizations of the electronics business operations and increase operational efficiency as announced on October 19, 2012, and included in selling, general and administrative expenses and an impairment of assets in other operating (income) expense in the consolidated statements of income.

Other asset impairment information

Asset-impairment of LCD television business related long-lived assets -

Sony recorded impairment losses of 16,700 million yen and 7,617 million yen for the fiscal years ended March 31, 2012 and 2013, respectively, included within the HE&S segment, related to the LCD television assets group. These impairment losses primarily reflected a decrease in the estimated fair value of property, plant and equipment and certain intangible assets.

For the LCD television asset group, the corresponding estimated future cash flows leading to the impairment charge reflected the continued deterioration in LCD television market conditions in Japan, Europe and North America, and unfavorable foreign exchange rates.

Sony excluded these losses on impairment from restructuring charges as they were not directly related to Sony s ongoing restructuring initiatives.

Asset-impairment of network business related long-lived assets -

Sony recorded an impairment loss of 12,601 million yen for the fiscal year ended March 31, 2012, included within All Other, related to the network business asset group, which has made investments in network improvements and security enhancements. This impairment loss primarily reflects a decrease in the estimated fair value of certain intangible and other long-lived assets.

During the fiscal year ended March 31, 2012, the corresponding estimated future cash flows leading to the impairment charge reflected management s revised forecast over the limited period applicable to the impairment determination.

Sony excluded this loss on impairment from restructuring charges as it was not directly related to Sony s ongoing restructuring initiatives.

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20. ***Supplemental consolidated statements of income information***

(1) Other operating (income) expense, net:
Sony records transactions in other operating (income) expense, net due to either the nature of the transaction or in consideration of factors including the relationship to Sony s core operations.

Other operating (income) expense, net is comprised of the following:

	Yen in millions March 31		
	2011	**2012**	**2013**
GSN remeasurement gain*[1]	(26,991)		
Sony Ericsson remeasurement gain*[1]		(102,331)	
Gain on sale and remeasurement of M3 shares*[2]			(122,160)
Gain on sale of the U.S. headquarters building*[3]			(65,516)
Gain on sale of Sony City Osaki*[3]			(42,322)
(Gain) loss on sale of interests in subsidiaries and affiliates, net*[1,4]	(4,465)	(2,882)	(10,399)
(Gain) loss on sale, disposal or impairment of assets, net*[4,5]	18,006	45,619	5,178
	(13,450)	(59,594)	(235,219)

*1 Refer to Note 24.

*2 Refer to Note 5.

*3 Refer to Note 8.

*4 Refer to Note 25.

*5 Refer to Notes 13, 18 and 19.

(2) Research and development costs:
Research and development costs charged to cost of sales for the fiscal years ended March 31, 2011, 2012 and 2013 were 426,814 million yen, 433,477 million yen and 473,610 million yen, respectively.

(3) Advertising costs:

Advertising costs included in selling, general and administrative expenses for the fiscal years ended March 31, 2011, 2012 and 2013 were 396,425 million yen, 357,106 million yen and 354,981 million yen, respectively.

(4) Shipping and handling costs:

Shipping and handling costs for finished goods included in selling, general and administrative expenses for the fiscal years ended March 31, 2011, 2012 and 2013 were 91,926 million yen, 76,644 million yen and 63,160 million yen, respectively, which included the internal transportation costs of finished goods.

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21. *Income taxes*

Domestic and foreign components of income (loss) before income taxes and the provision for current and deferred income taxes attributable to such income are summarized as follows:

	Yen in millions Fiscal year ended March 31		
	2011	2012	2013
Income (loss) before income taxes:			
Sony Corporation and all subsidiaries in Japan	143,917	(106,496)	185,767
Foreign subsidiaries	61,096	23,310	59,914
	205,013	(83,186)	245,681
Income taxes Current:			
Sony Corporation and all subsidiaries in Japan	60,514	33,921	34,288
Foreign subsidiaries	57,404	74,624	41,446
	117,918	108,545	75,734
Income taxes Deferred:			
Sony Corporation and all subsidiaries in Japan	365,665	2,794	76,256
Foreign subsidiaries	(58,244)	203,900	(10,485)
	307,421	206,694	65,771
Total income tax expense	425,339	315,239	141,505

A reconciliation of the differences between the Japanese statutory tax rate and the effective tax rate is as follows:

	Fiscal year ended March 31		
	2011	2012	2013
Statutory tax rate	41.0%	(41.0%)	38.3%
Non-deductible expenses	1.3	4.2	1.3
Income tax credits	(2.0)	(3.6)	(1.4)
Change in statutory tax rate	0.9	(36.2)	(1.9)
Change in valuation allowances	174.5	491.0	22.9
Change in deferred tax liabilities on undistributed earnings of foreign subsidiaries and corporate joint ventures	1.5	(21.2)	(0.7)
Lower tax rate applied to life and non-life insurance business in Japan	(2.8)	(7.8)	(3.2)
Foreign income tax differential	(10.5)	6.7	3.3
Adjustments to tax accruals and reserves	4.5	(15.9)	(3.1)
Effect of equity in net income (loss) of affiliated companies	(2.8)	60.0	0.1
Sony Ericsson remeasurement gain		(50.6)	
Insurance recovery tax exemptions related to the Floods		(5.2)	(1.2)
Other	1.9	(1.4)	3.2
Effective income tax rate	207.5%	379.0%	57.6%

In November 2011, the Japanese legislature enacted tax law changes which included lowering the national tax rate, limiting the annual use of net operating loss carryforwards to 80% of taxable income and increasing the net operating loss carryforward period from seven to nine years for losses incurred in the tax years ending on or after April 1, 2008. As a result, the statutory tax rate during the fiscal years ended March 31, 2013 to the fiscal years ending March 31, 2015 is approximately 38% and from the fiscal year ending March 31, 2016 will be

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approximately 36%. The limitation on the use of net operating loss carryforwards, however, may result in cash tax payments being due if there is taxable income in Japan even though Sony Corporation and its national tax filing group in Japan have significant net operating loss carryforwards available. These tax law changes took effect for Sony from April 1, 2012. Because accounting for income taxes requires the measurement of deferred tax assets and liabilities using the enacted tax rates, the tax law changes resulted in a net deferred tax benefit of 32,729 million yen for the fiscal year ended March 31, 2012.

The significant components of deferred tax assets and liabilities are as follows:

	Yen in millions March 31	
	2012	2013
Deferred tax assets:		
Operating loss carryforwards for tax purposes	533,912	546,322
Accrued pension and severance costs	87,871	102,970
Film costs	40,566	90,456
Warranty reserves and accrued expenses	82,842	70,529
Future insurance policy benefits	22,907	24,217
Inventory	37,431	33,232
Depreciation	39,473	38,334
Tax credit carryforwards	73,945	62,599
Reserve for doubtful accounts	5,580	5,629
Impairment of investments	34,387	32,136
Deferred revenue in the Pictures segment	21,980	30,181
Other	146,777	170,865
Gross deferred tax assets	1,127,671	1,207,470
Less: Valuation allowance	(868,233)	(931,247)
Total deferred tax assets	259,438	276,223
Deferred tax liabilities:		
Insurance acquisition costs	(140,190)	(145,048)
Future insurance policy benefits	(66,998)	(85,400)
Unbilled accounts receivable in the Pictures segment	(45,467)	(54,232)
Unrealized gains on securities	(43,831)	(63,730)
Intangible assets acquired through stock exchange offerings	(28,139)	(27,525)
Undistributed earnings of foreign subsidiaries and corporate joint ventures	(27,920)	(28,057)
Investment in M3		(46,336)
Other	(73,399)	(61,152)
Gross deferred tax liabilities	(425,944)	(511,480)
Net deferred tax liabilities	(166,506)	(235,257)

The valuation allowance mainly relates to deferred tax assets of certain consolidated subsidiaries with operating loss carryforwards and tax credit carryforwards for tax purposes that are not more-likely-than-not to be realized. The net changes in the total valuation allowance were increases of 347,460 million yen, 394,520 million yen and 63,014 million yen for the fiscal years ended March 31, 2011, 2012 and 2013, respectively.

The increase during the fiscal year ended March 31, 2011 was primarily due to the additional valuation allowance recorded on deferred tax assets at Sony Corporation and its national tax filing group in Japan. Sony Corporation and its national tax filing group in Japan were in a three year cumulative loss position in the fiscal year ended March 31, 2011. In Japan, Sony Corporation files a standalone tax filing for local tax purposes and a

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consolidated national tax filing with its wholly-owned Japanese subsidiaries for national tax purposes. As the national tax filing group only includes wholly-owned subsidiaries, certain Japanese subsidiaries are excluded, the most significant of which are Sony Financial Holdings Inc. and its subsidiaries. Due to the cumulative losses in recent years, and because the net operating losses in Japan have a relatively short carryforward period of seven to nine years, a limited number of years remain in the carryforward period. The first year of expiration of the remaining net operating losses in Japan would be 2014 for local taxes and 2018 for national taxes. Carrying amounts of deferred tax assets require a reduction by a valuation allowance if, based on the available positive and negative evidence, it is more likely than not that such assets will not be realized. While the cumulative loss position and the remaining limited years in the carryforward period were significant negative evidence, there was positive evidence in the form of a history of taxable income and a history of utilizing assets before expiration, as well as the availability of tax strategies regarding the utilization of the deferred tax assets. However, based on the near term forecast at the end of the fiscal year ended March 31, 2011, including the anticipated impact of the Great East Japan Earthquake and the lesser weight provided to longer range forecasts when an entity is in a cumulative loss, Sony did not believe that the objectively verifiable positive evidence was sufficient to overcome the significant negative evidence of the cumulative loss. As the weight given to the positive and negative evidence is commensurate with the extent to which the evidence may be objectively verified, it is generally difficult for positive evidence regarding projected future taxable income exclusive of reversing taxable temporary differences to outweigh objectively verifiable negative evidence of recent financial reporting losses. Accordingly, Sony, based on the weight of the available positive and negative evidence, established a valuation allowance of 362,316 million yen as of March 31, 2011.

The increase during the fiscal year ended March 31, 2012 was primarily due to the additional valuation allowances recorded on deferred tax assets in the U.S. and the U.K. and additional valuation allowances recorded in Japan for Sony Corporation and certain Japanese subsidiaries. As of March 31, 2012, Sony has concluded that with respect to Sony Americas Holding Inc. (SAHI) and its consolidated tax filing group in the U.S., and Sony Europe Limited (SEU), a subsidiary in the U.K., the cumulative loss position was significant negative evidence that was difficult to overcome. There was positive evidence in the form of tax planning actions and strategies, the long carryforward periods for utilization, as well as a history of taxable income and utilization of assets before expiration. The tax planning strategies included changes in film amortization methods in the U.S., the success of which depends on future forecasts of income. Notwithstanding this positive evidence, the weight given to evidence is commensurate with the extent to which it can be objectively verified. It is generally difficult for positive evidence regarding projected future taxable income exclusive of reversing taxable temporary differences to outweigh objectively verifiable negative evidence of recent financial reporting losses. Accordingly, Sony, based on the weight of the available positive and negative evidence, established a valuation allowance of 203,025 million yen for SAHI and its consolidated tax filing group in the U.S., and 20,694 million yen for SEU, as of March 31, 2012. Sony Corporation and its national tax filing group in Japan remained in a cumulative loss position as of March 31, 2012, and as a result, during the fiscal year ended March 31, 2012, Sony recorded an additional valuation allowance against certain deferred tax assets at Sony Corporation and its national tax filing group in Japan. In addition, several Japanese subsidiaries are also in a cumulative loss position as of March 31, 2012, and therefore, recorded valuation allowances of 32,631 million yen against their separate deferred tax assets for local tax purposes.

Prior to its acquisition, Sony Ericsson, principally due to its cumulative loss position, had a valuation allowance against deferred tax assets mainly in Sweden in the amount of 78,393 million yen, for which Sony reported the impact of the valuation allowance through its 50% equity interest in Sony Ericsson.

The increase during the fiscal year ended March 31, 2013 was primarily due to continuing losses at Sony Corporation and its national tax filing group in Japan and SEU, partially offset by a decrease in the valuation allowance in the U.S. principally attributable to a gain on the sale of the U.S. headquarters building as described in Note 8.

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Net deferred tax assets (net of valuation allowance) and liabilities are included in the consolidated balance sheets as follows:

	Yen in millions March 31	
	2012	2013
Current assets Deferred income taxes	36,769	44,615
Other assets Deferred income taxes	100,460	107,688
Current liabilities Other	(19,236)	(13,561)
Long-term liabilities Deferred income taxes	(284,499)	(373,999)
Net deferred tax liabilities	(166,506)	(235,257)

At March 31, 2013, deferred income taxes have not been provided on undistributed earnings of foreign subsidiaries and corporate joint ventures not expected to be remitted in the foreseeable future totaling 1,097,643 million yen, and on the gain of 61,544 million yen on a subsidiary s sale of stock arising from the issuance of common stock of Sony Music Entertainment (Japan) Inc. (SMEJ) in a public offering to third parties in November 1991, as Sony does not anticipate any significant tax consequences on the possible future disposition of its investment based on its tax planning strategies. It is not practicable to determine the amount of unrecognized deferred tax liabilities associated with such temporary differences as of March 31, 2013.

At March 31, 2013, Sony has operating loss carryforwards for tax purposes, the tax effect of which totaled 546,322 million yen, which will be available as an offset against future taxable income on tax returns to be filed in various tax jurisdictions. With the exception of 145,713 million yen with no expiration period, substantially all of the total operating loss carryforwards expire at various periods between the fiscal years ending March 31, 2014 and 2022 and the remaining amounts expire in periods up to 20 years depending on the jurisdiction.

Tax credit carryforwards for tax purposes at March 31, 2013 amounted to 62,599 million yen. With the exception of 18,006 million yen with no expiration period, total available tax credit carryforwards expire at various dates primarily up to 10 years.

A reconciliation of the beginning and ending gross amounts of unrecognized tax benefits is as follows:

		Yen in millions March 31	
	2011	2012	2013
Balance at beginning of the fiscal year	229,228	225,120	288,311
Reductions for tax positions of prior years	(39,005)	(25,302)	(11,533)
Additions for tax positions of prior years	19,947	59,159	8,980
Additions based on tax positions related to the current year	41,201	44,307	27,849
Settlements	(1,478)	(4,046)	(140,813)
Lapse in statute of limitations	(7,770)	(3,807)	(7,495)
Foreign currency translation adjustments	(17,003)	(7,120)	26,587
Balance at end of the fiscal year	225,120	288,311	191,886
Total net amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate	87,497	77,925	72,947

The major changes, including settlements, in the total gross amount of unrecognized tax benefit balances relate to transfer pricing adjustments, including as a result of the Bilateral Advance Pricing Agreements (APAs) filed for certain subsidiaries in the IP&S, Game, MP&C, HE&S, and Devices segments and All Other,

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with respect to the intercompany cross-border transactions. The APAs include agreements between Sony and two taxing authorities under the authority of the mutual agreement procedure specified in income tax treaties. Sony reviews its estimated tax expense based on the progress made in these procedures, and the progress of transfer pricing audits generally, and makes adjustments to its estimates as necessary. In addition, the APA s are government to government negotiations, and therefore it is possible that the final outcomes of the agreements may differ from Sony s current assessment of the more-likely-than-not outcomes of such agreements.

During the fiscal year ended March 31, 2011, Sony recorded 3,612 million yen of interest expense and reversed 261 million yen of penalties.

During the fiscal year ended March 31, 2012, Sony reversed 1,336 million yen of interest expense and 333 million yen of penalties. At March 31, 2012, Sony had recorded liabilities of 13,187 million yen and 4,074 million yen for the payments of interest and penalties, respectively.

During the fiscal year ended March 31, 2013, Sony reversed 3,935 million yen of interest expense and 367 million yen of penalties. At March 31, 2013, Sony had recorded liabilities of 9,252 million yen and 3,707 million yen for the payments of interest and penalties, respectively.

Sony operates in multiple jurisdictions throughout the world, and its tax returns are periodically audited by Japanese and foreign taxing authorities. As a result of audit settlements, the conclusion of current examinations, the expiration of the statute of limitations in several jurisdictions and other reevaluations of Sony s tax positions, it is expected that the amount of unrecognized tax benefits will change in the next twelve months. Accordingly, Sony believes it is reasonably possible that its existing unrecognized tax benefits may be reduced by an amount up to 5,632 million yen within the next twelve months.

Sony remains subject to examinations by Japanese taxing authorities for tax years from 2006 through 2012, and by the U.S. and other foreign taxing authorities for tax years from 1998 through 2012.

22. ***Reconciliation of the differences between basic and diluted EPS***

Reconciliation of the differences between basic and diluted EPS for the fiscal years ended March 31, 2011, 2012 and 2013 is as follows:

	Yen in millions Fiscal year ended March 31		
	2011	**2012**	**2013**
Net income (loss) attributable to Sony Corporation s stockholders for basic and diluted EPS computation	(259,585)	(456,660)	43,034

	Thousands of shares		
Weighted-average shares outstanding	1,003,559	1,003,578	1,005,417
Effect of dilutive securities:			
Stock acquisition rights			67
Zero coupon convertible bonds			65,308
Weighted-average shares for diluted EPS computation	1,003,559	1,003,578	1,070,792

	Yen		
Basic EPS	(258.66)	(455.03)	42.80
Diluted EPS	(258.66)	(455.03)	40.19

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Potential shares of common stock which were excluded from the computation of diluted EPS for the fiscal years ended March 31, 2011, 2012 and 2013 were 19,383 thousand shares, 22,417 thousand shares and 17,272 thousand shares, respectively. The potential shares were excluded as anti-dilutive for the fiscal years ended March 31, 2011 and 2012 due to Sony incurring a net loss attributable to Sony Corporation s stockholders for those fiscal years and potential shares related to stock acquisition rights were excluded as anti-dilutive for the fiscal year ended March 31, 2013 as the exercise price for those shares was in excess of the average market value of Sony s common stock for the fiscal year. The zero coupon convertible bonds issued in November 2012 was included in the diluted EPS calculation under the if-converted method beginning upon issuance.

23. ***Variable interest entities***

Sony has, from time to time, entered into various arrangements with VIEs. These arrangements include several joint ventures in the recorded music business, the U.S. based music publishing business, the financing of film production and the outsourcing of manufacturing operations. In addition, Sony has entered into several accounts receivable sales programs that involve VIEs, which are described in Note 6. For the VIEs that are described below, it has been determined that Sony is the primary beneficiary and, accordingly, these VIEs are consolidated by Sony.

Sony s U.S. subsidiary that is engaged in the recorded music business has entered into several joint ventures with companies involved in the production and creation of recorded music. Sony has reviewed these joint ventures and determined that they are VIEs. Based on a qualitative assessment, it was determined that Sony has the power to direct the activities that most significantly impact the VIEs economic performance, as well as the obligation to absorb the losses of theses VIEs as Sony is responsible for providing funding to these VIEs, and in most cases absorbs all losses until the VIEs become profitable. As a result, it has been determined that Sony is the primary beneficiary. The assets of Sony are not available to settle the obligations of these VIEs. On an aggregate basis, the total assets and liabilities for these VIEs at March 31, 2013 were 26,426 million yen and 7,752 million yen, respectively.

Sony s U.S. based music publishing subsidiary is a joint venture with a third-party investor and has been determined to be a VIE. The subsidiary owns and acquires rights to musical compositions, exploits and markets these compositions and receives royalties or fees for their use. Under the terms of the joint venture, Sony has the obligation to fund any working capital deficits as well as any acquisition of music publishing rights made by the joint venture. In addition, the third-party investor receives a guaranteed annual dividend of up to 23.1 million U.S. dollars through December 15, 2016. Based on a qualitative assessment, it was determined that Sony has the power to direct the activities that most significantly impact the VIE s economic performance, as well as the obligation to absorb the losses of the VIE due to its obligation to provide funding to the joint venture. As a result, it has been determined that Sony is the primary beneficiary. At March 31, 2013, the assets and liabilities of the VIE that were included in Sony s consolidated balance sheets were as follows:

	Yen in millions
Assets:	
Cash and cash equivalents	6,427
Account receivables, net	1,750
Other current assets	22,262
Property, plant and equipment, net	940
Intangibles, net	59,055
Goodwill	14,225
Other noncurrent assets	6,894
Total assets	111,553
Liabilities:	
Accounts payable and accrued expenses	32,803
Other current liabilities	7,340
Other noncurrent liabilities	2,012

Total liabilities	42,155

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VIEs in which Sony holds a significant variable interest, but is not the primary beneficiary are described as follows:

In connection with the September 2010 refinancing of the debt obligations of the third-party investor in the music publishing subsidiary described above, Sony has issued a guarantee to a creditor of the third-party investor in which Sony has agreed to repay the outstanding principal plus accrued interest up to a maximum of 303 million U.S. dollars to the creditor should the third-party investor default on its obligation. The obligation of the third-party investor is collateralized by its 50% interest in Sony s music publishing subsidiary. Should Sony have to make a payment under the terms of the guarantee, Sony would assume the creditor s rights to the underlying collateral. The assets of the third-party investor that are being used as collateral were placed in a separate trust which is also a VIE in which Sony has significant variable interests. Based on a qualitative assessment, it was determined that Sony is not the primary beneficiary as Sony does not have the power to direct the activities of the trust. The assets held by the trust consist solely of the third-party investor s 50% ownership interest in the music publishing subsidiary. At March 31, 2013, the fair value of the assets held by the trust exceeded 303 million U.S. dollars.

Sony s subsidiary in the Pictures segment entered into a joint venture agreement with a VIE to acquire the international distribution rights, as defined, to 12 pictures. The subsidiary is required to distribute these pictures internationally, for contractually defined fees determined as percentages of gross receipts and is responsible for all distribution and marketing expenses, which are recouped from such distribution fees, each as defined. The VIE was capitalized with total financing of 406 million U.S. dollars. Of this amount, 11 million U.S. dollars was contributed by the subsidiary, 95 million U.S. dollars was provided by unrelated third-party investors and the remaining funding was provided through a 300 million U.S. dollar bank credit facility. Under the agreement, the subsidiary s 11 million U.S. dollars equity investment is the last equity to be repaid. Based on the factors above, it was previously determined that the subsidiary was the primary beneficiary as it had the power to direct the activities of the VIE and was projected to absorb a significant amount of the losses or residual returns of the VIE. As of March 31, 2009, the bank credit facility had been terminated and the third-party investors have been repaid their 95 million U.S. dollar investment. On May 11, 2009, the subsidiary repurchased from the VIE the international distribution rights to the 12 pictures and the VIE received a participation interest in these films on identical financial terms to those described above. As a result of repurchasing the international distribution rights from the VIE, Sony determined that the subsidiary was no longer the primary beneficiary as it no longer had the power to direct the activities of the VIE and was not projected to absorb a significant amount of the losses or residual returns of the VIE. No gain or loss was recognized by the subsidiary on the deconsolidation of the VIE. On April 11, 2012, the subsidiary acquired the VIE s participation interest for 22 million U.S. dollars. As a result of this acquisition, the VIE no longer has any financial interest in these pictures.

Additionally, on January 19, 2007, the subsidiary entered into a production/co-financing agreement with another VIE to co-finance a majority of the films submitted through March 2012. The subsidiary received a commitment from the VIE that it would fund up to 525 million U.S. dollars on a revolving basis to fund the production or acquisition cost of films (including fees and expenses). Under the agreement, the subsidiary is responsible for the marketing and distribution of the product through its global distribution channels. The VIE shares in the net profits, as defined, of the films after the subsidiary recoups a distribution fee, its marketing and distribution expenses, and third-party participation and residual costs, each as defined. As the subsidiary did not have the power to direct the activities of the VIE, the subsidiary is not the primary beneficiary of the VIE. On December 16, 2011, the subsidiary and the VIE agreed to modify the production/co-financing agreement (the Modification). Per the Modification, the VIE paid the subsidiary 20 million U.S. dollars and transferred selected rights in the films financed prior to the Modification (the Previously Financed Films) to the subsidiary, including the VIE s share in the net profits in the Previously Financed Films. In exchange, the subsidiary released the VIE from its obligation to finance future films and the VIE received a participation interest in the Previously Financed Films. As the subsidiary, after the Modification, continues to not have the power to direct the activities of the VIE, the subsidiary is not the primary beneficiary of the VIE. At March 31, 2013, there were no amounts recorded on the subsidiary s balance sheet that related to the VIE other than the VIE s participation interest in the Previously Financed Films.

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In January 2010, Sony sold 90.0% of its interest in a Mexican subsidiary which primarily manufactured LCD televisions, as well as other assets to a contract manufacturer. The continuing entity, which would perform this manufacturing going forward, is a VIE as it is thinly capitalized and dependent on funding from the parent entity. Based on a qualitative assessment, it was determined that Sony is not the primary beneficiary as Sony does not have the power to direct the activities that most significantly impact the VIE s economic performance nor does Sony have the obligation to absorb the losses of the VIE. Concurrent with the sale, Sony entered into an agreement with the VIE and its parent company in which Sony agreed to purchase a significant share of the LCD televisions that Sony sells in certain markets, including the U.S. market. As of March 31, 2013, the amounts recorded on Sony s consolidated balance sheets that relate to the VIE include receivables recorded within prepaid expenses and other current assets of 8,989 million yen and accounts payable, trade of 12,756 million yen. Sony s maximum exposure to losses is considered insignificant.

As described in Note 5, on June 29, 2012, an investor group which included a wholly owned subsidiary of Sony Corporation completed its acquisition of EMI Music Publishing. To effect the acquisition, the investor group formed DH Publishing, L.P. (DHP) which acquired EMI Music Publishing. In addition, DHP entered into an agreement with Sony s U.S. based music publishing subsidiary in which the subsidiary provides administration services to DHP (the Administration Agreement). DHP was determined to be a VIE as many of the decision making rights for the entity do not reside within the entity s equity interests, but rather are embedded in the Administration Agreement. Under the terms of the Administration Agreement, the largest non-Sony shareholder has approval rights over decisions regarding the activities that most significantly impact DHP, including the acquisition and retention of copyrights and the licensing of songs. These approval rights result in Sony and the largest non-Sony shareholder sharing the power to direct the activities of DHP, and as such, Sony is not the primary beneficiary of the VIE. At March 31, 2013, the only amounts recorded on Sony s consolidated balance sheet that relate to the VIE is Sony s net investment of 273 million U.S. dollars and a net receivable balance of 11 million U.S. dollars. Sony s maximum exposure to losses as of March 31, 2013 is the aggregate amounts recorded on its balance sheet of 284 million U.S. dollars.

As described in Note 6, accounts receivable sales programs in Japan and in the Financial Services segment also involve VIEs. These VIEs are all special purpose entities of the sponsor banks. Based on a qualitative assessment, Sony is not the primary beneficiary and therefore does not consolidate these entities as Sony does not have the power to direct the activities, an obligation to absorb losses, or the right to receive the residual returns of these VIEs. Sony s maximum exposure to losses from these VIEs is considered insignificant.

24. *Acquisitions*

(1) Game Show Network acquisition

In March 2011, Sony acquired an additional 5% equity interest in Game Show Network (GSN) from the other investor in GSN (the Current Investor) for 4,849 million yen, resulting in Sony owning a 40% equity interest in GSN. As part of the acquisition, Sony obtained a controlling interest in GSN, including the ability to appoint the majority of representatives on the GSN management committee, control over approval of the budget for GSN and control over the hiring, terminating and setting compensation of the senior management of GSN. This acquisition will strengthen Sony s presence in U.S. cable networks and Sony expects that it will allow GSN to further exploit and benefit from the light entertainment assets in the Pictures segment.

Prior to the March 2011 acquisition, Sony s interest in GSN was accounted for under the equity method of accounting. As a result of Sony obtaining a controlling interest in GSN, Sony consolidated GSN using the acquisition method of accounting and recorded the assets and liabilities of GSN at fair value, including 45,905 million yen of goodwill, 47,323 million yen of intangible assets, an 18,779 million yen redeemable noncontrolling interest and a 40,728 million yen noncontrolling interest. The intangible assets were primarily comprised of television carriage agreements (broadcasting agreements) of 33,698 million yen with a weighted-average amortization period of 20 years. In accordance with the accounting guidance for business combinations achieved in stages, Sony remeasured the 35%

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equity interest in GSN that it owned prior to the acquisition at a fair value of 33,940 million yen which resulted in the recognition of a gain of 26,991 million yen recorded in other operating (income) expense, net.

No value was allocated to in-process research and development in this acquisition. Goodwill represents unidentifiable intangible assets, such as future growth from new revenue streams and synergies with Sony s existing assets and businesses, and is calculated as the excess of the purchase price over the estimated fair value of the net tangible and intangible assets acquired and is not deductible for tax purposes. The goodwill recorded in connection with this acquisition is included in the Pictures segment.

The results of operations of GSN are included in the Pictures segment after the acquisition date. The following unaudited supplemental pro forma financial information presents the combined results of operations of Sony and GSN as though the acquisition had occurred as of the beginning of the fiscal year ended March 31, 2011:

	Yen in millions, except per share data Fiscal year ended March 31 2011 (Unaudited)
Net sales	6,325,310
Operating income	199,445
Net loss attributable to Sony Corporation s stockholders	(259,731)
Basic EPS	(258.81)
Diluted EPS	(258.81)

The unaudited supplemental pro forma financial information is based on estimates and assumptions, which Sony believes are reasonable and is not intended to represent or be indicative of what Sony s consolidated net loss attributable to Sony Corporation s stockholders would have been had the acquisition been completed at the beginning of each of these periods and should not be taken as indicative of Sony s future consolidated net loss attributable to Sony Corporation s stockholders. The unaudited supplemental pro forma financial information includes a gain from remeasurement of the previously owned equity interest and incremental intangible asset amortization, net of the related tax effects.

In addition to acquiring the additional 5% equity interest in GSN, Sony granted a put right to the Current Investor and received a call right from the Current Investor for an additional 18% equity interest in GSN. The put right was exercisable during three windows starting on April 1 of 2012, 2013 and 2014 and lasting for 60 business days (each such period, a Trigger Window). In the event that GSN s audited financial statements for the most recently completed calendar year are not available on April 1, the Trigger Window shall commence on the day when GSN s audited financial statements are delivered to the Current Investor. The exercise price of the put was calculated using a formula based on an agreed upon multiple of the earnings of GSN with a minimum price of 234 million U.S. dollars and a maximum price of 288 million U.S. dollars. In September 2012, the Current Investor exercised its put right to sell an 18% interest in GSN to Sony for 234 million U.S. dollars (the GSN Share Purchase). The GSN Share Purchase received regulatory approval and closed on December 7, 2012 (the Closing Date). Prior to the Current Investor exercising its put right, the portion of the noncontrolling interest that could be put to Sony was accounted for as redeemable securities because redemption was outside of Sony s control and was reported in the mezzanine equity section in the consolidated balance sheets. After exercise, the 234 million U.S. dollars owed to the Current Investor (the Put Payment) is payable to the Current Investor in two payments of 117 million U.S. dollars each plus interest thereon at 10% per annum from the Closing Date to each payment date. The first payment is due no later than April 15, 2013 and the second payment is due no later than April 15, 2014; provided, however, that Sony may make either payment at any time up to the due date with no prepayment penalty. Sony paid the first payment of 117 million U.S. dollars plus interest of 3.8 million U.S. dollars to the Current Investor on April 2, 2013. A buy/sell provision also applies to the equity interests in GSN owned by Sony and the Current Investor and may be exercised annually for a 60 business day window beginning April 1, 2015.

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(2) Sony Ericsson acquisition

On February 15, 2012, Sony acquired Ericsson s 50% equity interest in Sony Ericsson, resulting in Sony Ericsson becoming a wholly-owned subsidiary of Sony. The transaction also provided Sony with a broad intellectual property cross-licensing (IP cross-licensing) agreement and ownership of five essential patent families relating to wireless handset technology. The total consideration consisted of 107,174 million yen (1,050 million euros) of cash. The agreement with Ericsson also provided for contingent consideration depending on the level of certain specified costs. Based on the estimated level of the specified costs, no amounts were expected to be paid under this arrangement and therefore no amounts were recorded as additional consideration. This acquisition will integrate Sony Ericsson, renamed Sony Mobile, into Sony s platform of network-connected consumer electronics products with the aim of accelerating convergence.

Prior to the acquisition, Sony s interest in Sony Ericsson was accounted for under the equity method of accounting. As a result of Sony obtaining a controlling interest in Sony Ericsson, Sony consolidated Sony Ericsson using the acquisition method of accounting and recorded the fair value of the identifiable assets, liabilities assumed, noncontrolling interest and residual goodwill of Sony Ericsson. In accordance with the accounting guidance for business combinations achieved in stages, Sony remeasured the 50% equity interest in Sony Ericsson that it owned prior to the acquisition at a fair value of 71,449 million yen which resulted in the recognition of a gain of 102,331 million yen recorded in other operating (income) expense, net. Sony elected not to record a deferred tax liability corresponding to the difference between the financial reporting basis which was remeasured to fair value upon an acquisition of a controlling interest in a foreign entity and the tax basis in the previously held ownership interest. In addition, accumulated translation adjustments of 11,690 million yen remained as a component of accumulated other comprehensive income.

The following table summarizes the fair values assigned to the assets and liabilities of Sony Ericsson that were recorded in the MP&C segment, and the IP cross-licensing that was assigned to Corporate for segment reporting purposes.

	Yen in millions
	Acquired assets and liabilities recorded at fair value as of the acquisition date
Cash and cash equivalents	35,331
Notes and accounts receivable, trade	54,522
Inventories	54,095
Prepaid expenses and other current assets	28,618
Property, plant and equipment	18,075
Intangibles	123,097
Goodwill	128,522
Other noncurrent assets	22,463
Total assets	464,723
Notes and accounts payable, trade	66,522
Accounts payable, other and accrued expenses	61,467
Other current liabilities	136,938
Other noncurrent liabilities	7,126
Total liabilities	272,053
Noncontrolling interest	14,047
Total	178,623

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No value was allocated to in-process research and development in this acquisition as no material amounts were identified; however, certain significant research and development activities were substantially completed as of the acquisition date and included within acquired intangible assets as developed technology. Goodwill represents unidentifiable intangible assets, such as future growth from new revenue streams, increased market share particularly in emerging markets and the U.S., synergies with existing Sony assets and businesses and an assembled workforce, and is calculated as the excess of the purchase price over the estimated fair value of the net tangible and intangible assets acquired and is not deductible for tax purposes. The goodwill recorded in connection with this acquisition is included in the MP&C segment.

The intangible assets are comprised of the following:

	Yen in millions Acquired intangibles recorded at fair value	Years Weighted-average amortization period
Intangibles subject to amortization		
IP cross-licensing	60,834	6
Developed technology	24,599	9
Customer relationships	19,597	14
Trademarks	14,086	7
Other	3,981	7
Total intangibles	123,097	

The following unaudited supplemental pro forma financial information presents the combined results of operations of Sony and Sony Ericsson as though the acquisition had occurred as of the beginning of the fiscal year ended March 31, 2011:

	Yen in millions, except per share data Fiscal year ended March 31 2011	 2012
	(Unaudited)	
Net sales	6,901,151	5,941,131
Operating income (loss)	231,895	(187,725)
Net loss attributable to Sony Corporation s stockholders	(226,038)	(654,833)
Basic EPS	(225.24)	(652.50)
Diluted EPS	(225.24)	(652.50)

The unaudited supplemental pro forma financial information is based on estimates and assumptions, which Sony believes are reasonable and is not intended to represent or be indicative of what Sony s consolidated net loss attributable to Sony Corporation s stockholders would have been had the acquisition been completed at the beginning of the fiscal year ended March 31, 2011 and should not be taken as indicative of Sony s future consolidated net loss attributable to Sony Corporation s stockholders. The unaudited supplemental pro forma financial information includes:

- the elimination of equity in net income (loss) and consolidation of Sony Ericsson;

- the gain from remeasurement of the previously owned equity interest;

incremental intangible asset amortization, net of the related tax effects;

certain royalty adjustments; and

additional debt issuance costs and interest expense, incurred in connection with the acquisition.

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(3) Sony Semiconductor acquisition

On April 1, 2011, Sony Semiconductor Kyushu Corporation, a wholly-owned subsidiary of Sony Corporation, acquired from Toshiba Corporation (Toshiba) for 57,451 million yen semiconductor fabrication equipment and certain related assets. Sony Semiconductor Kyushu Corporation has subsequently changed its name to Sony Semiconductor Corporation, effective November 1, 2011. Sony s goal in acquiring the assets is to further strengthen its production capacity for CMOS image sensors.

The assets were operated by Nagasaki Semiconductor Manufacturing Corporation (NSM), a joint venture among Toshiba, Sony Corporation and Sony Computer Entertainment Inc., a wholly-owned subsidiary of Sony Corporation. Subsequent to the acquisition, Sony entered into a three year sale and leaseback transaction regarding certain of the acquired machinery and equipment with its equity interest affiliate, SFIL, and received proceeds of 50,537 million yen based on the amounts recorded at fair value in the acquisition. These transactions are included within other in the investing activities section of the consolidated statements of cash flows.

In connection with the acquisition, Toshiba and Sony terminated their NSM joint venture relationship. Sony also entered into a supply arrangement to manufacture and supply system LSIs to Toshiba for one year following the acquisition.

The following table summarizes the fair values assigned to the assets acquired at the acquisition date.

	Yen in millions Acquired assets recorded at fair value
Inventories	4,370
Other current assets	82
Machinery and equipment	51,083
Intangibles	1,223
Other noncurrent assets	693
Total	57,451

As the purchase price was fully allocated to identifiable tangible and intangible assets and no liabilities were assumed, there was no goodwill recorded as part of the acquisition. The unaudited supplemental pro forma results of operations have not been presented because the effect of the acquisition was not material.

(4) Other acquisitions

During the fiscal year ended March 31, 2011, Sony completed other acquisitions for total consideration of 2,884 million yen which was paid primarily in cash and there was no material contingent consideration subject to future change. As a result of the acquisitions, Sony recorded 1,415 million yen of goodwill and 1,227 million yen of intangible assets.

During the fiscal year ended March 31, 2012, Sony completed other acquisitions for total consideration of 7,914 million yen which was paid primarily in cash and there was no material contingent consideration subject to future change. As a result of the acquisitions, Sony recorded 5,853 million yen of goodwill and 3,345 million yen of intangible assets.

During the fiscal year ended March 31, 2013, Sony completed other acquisitions for total consideration of 39,022 million yen which was paid primarily in cash and included the August 10, 2012, acquisition of Gaikai for total cash consideration of 28,167 million yen. Gaikai has developed a high quality, fast interactive cloud-streaming platform that enables streaming of a broad array of content ranging from immersive core games with

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rich graphics to casual content to a wide variety of devices via the internet. There was no material contingent consideration subject to future change. As a result of Sony s acquisition of Gaikai and other businesses, Sony recorded 27,699 million yen of goodwill and 11,511 million yen of intangible assets.

No significant amounts have been allocated to in-process research and development and all of the entities described above have been consolidated into Sony s results of operations since their respective acquisition dates. Pro forma results of operations have not been presented because the effects of Gaikai and the other acquisitions, individually and in aggregate, were not material.

25. *Divestitures*

(1) HBO Latin America

In the fiscal year ended March 31, 2011, Sony sold its remaining investment in HBO Latin America, which owns and operates certain premium pay television businesses and were included in the Pictures segment, for total cash proceeds of 5,285 million yen and a gain of 3,329 million yen.

(2) Small- and medium-sized TFT LCD business

In March 2012, Sony sold the small- and medium-sized TFT LCD business, which was included in the Devices segment, to Japan Display Inc. The sale proceeds were subject to the finalization of certain post-closing conditions and adjustments. In connection with the sale, Sony transferred legal ownership of a certain subsidiary within the former small- and medium-sized TFT LCD business to Japan Display Inc. during the fiscal year ended March 31, 2013. During the fiscal year ended March 31, 2012, Sony recorded an impairment loss of 19,187 million yen in other operating (income) expense, net in the consolidated statements of income, as the disposal group was classified as held for sale and recorded at the lesser of carrying value or fair value. Following the sale, Sony purchased an equity interest in Japan Display Inc. which Sony accounts for under the cost method.

(3) S-LCD Corporation

In the fiscal year ended March 31, 2012, Sony sold all of its shares of S-LCD, the LCD panel manufacturing joint venture. Refer to Note 5.

(4) Chemical products related business

On September 28, 2012, Sony sold the chemical products related business, which was included in the Devices segment, to the Development Bank of Japan (DBJ). As a result of the transaction, the transfer of Sony s domestic and overseas operations of the chemical products related business, including all shares in Sony Chemical & Information Device Corporation, to DBJ has been completed. The sale resulted in net cash proceeds of 52,756 million yen, and a gain of 9,050 million yen, recorded in other operating (income) expense, net in the consolidated statements of income, for the fiscal year ended March 31, 2013.

26. *Collaborative arrangements*

Sony s collaborative arrangements primarily relate to arrangements entered into, through a subsidiary in the Pictures segment, with one or more active participants to jointly finance, produce and/or distribute motion picture or television product under which both the subsidiary and the other active participants share in the risks and rewards of ownership. These arrangements are referred to as co-production and distribution arrangements.

Sony typically records an asset for only the portion of the motion picture or television product it owns and finances. Sony and the other participants typically distribute the product in different media or markets. Revenues earned and expenses incurred for the media or markets in which Sony distributes the product are typically recorded on a gross basis. Sony typically does not record revenues earned and expenses incurred when the other

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participants distribute the product. Sony and the other participants typically share in the profits from the distribution of the product in all media or markets. For motion picture product, if Sony is a net receiver of (1) Sony s share of the profits from the media or markets distributed by the other participants less (2) the other participants share of the profits from the media or markets distributed by Sony then the net amount is recorded as net sales. If Sony is a net payer then the net amount is recorded in cost of sales. For television product, Sony records its share of the profits from the media or markets distributed by the other participants as sales, and the other participants share of the profits from the media or markets distributed by Sony as cost of sales.

For the years ended March 31, 2011, 2012 and 2013, 4,866 million yen, 10,990 million yen and 31,587 million yen, respectively, were recorded as cost of sales for amounts owed to the other participants and 10,244 million yen, 14,625 million yen and 12,538 million yen, respectively, were recorded as net sales for amounts due from the other participants in these collaborative arrangements.

27. *Commitments, contingent liabilities and other*

(1) Commitments:

A. Loan commitments

Subsidiaries in the Financial Services segment have entered into loan agreements with their customers in accordance with the condition of the contracts. As of March 31, 2013, the total unused portion of the lines of credit extended under these contracts was 23,276 million yen. The aggregate amounts of future year-by-year payments for these loan commitments cannot be determined.

B. Purchase commitments and other

Purchase commitments and other outstanding at March 31, 2013 amounted to 305,683 million yen. The major components of these commitments are as follows:

In the ordinary course of business, Sony makes commitments for the purchase of property, plant and equipment. As of March 31, 2013, such commitments outstanding were 27,152 million yen.

Certain subsidiaries in the Pictures segment have entered into agreements with creative talent for the development and production of motion pictures and television programming as well as agreements with third parties to acquire completed motion pictures, or certain rights therein, and to acquire the rights to broadcast certain live action sporting events. These agreements cover various periods mainly within 5 years. As of March 31, 2013, these subsidiaries were committed to make payments under such contracts of 111,390 million yen.

Certain subsidiaries in the Music segment have entered into long-term contracts with recording artists, songwriters and companies for the future production, distribution and/or licensing of music product. These contracts cover various periods mainly within 5 years. As of March 31, 2013, these subsidiaries were committed to make payments of 55,378 million yen under such long-term contracts.

Sony has entered into long-term sponsorship contracts related to advertising and promotional rights. These contracts cover various periods mainly within 10 years. As of March 31, 2013, Sony has committed to make payments of 53,792 million yen under such long-term contracts.

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The schedule of the aggregate amounts of year-by-year payment of purchase commitments during the next five years and thereafter is as follows:

Fiscal year ending March 31	Yen in millions
2014	143,748
2015	60,676
2016	41,039
2017	24,102
2018	9,720
Later years	26,398
Total	305,683

In addition to the above, Sony has other commitments as follows:

During the fiscal year ended March 31, 2012, there was a receipt of an advance payment from a commercial customer. The advance payment amounts are recouped through product sales to the commercial customer during the period specified in the contract, as amended. As of March 31, 2013, Sony recorded 35,540 million yen in other long-term liabilities based on the anticipated recoupment period. The advance payment is subject to reimbursement under certain contingent conditions including a downgrade of Sony s credit rating by either S&P (lower than BBB-) or Moody s (lower than Baa3).

(2) Contingent liabilities:

Sony had contingent liabilities, including guarantees given in the ordinary course of business, which amounted to 87,179 million yen at March 31, 2013. The major components of these contingent liabilities are as follows:

As discussed in Note 23, Sony has agreed to repay the outstanding principal plus accrued interest up to a maximum of 303 million U.S. dollars to the creditor of the third-party investor of Sony s U.S. based music publishing subsidiary should the third-party investor default on its obligation. The obligation of the third-party investor is collateralized by its 50% interest in Sony s music publishing subsidiary. Should Sony have to make a payment under the terms of the guarantee, Sony would assume the creditor s rights to the underlying collateral. At March 31, 2013, the fair value of the collateral exceeded 303 million U.S. dollars.

In May 2011, Sony Corporation s U.S. subsidiary, Sony Electronics Inc., received a subpoena from the DOJ Antitrust Division seeking information about its secondary batteries business. Sony understands that the DOJ, the EU and certain other agencies outside the United States are investigating competition in the secondary batteries market. Subsequently, a number of direct and indirect purchaser class action lawsuits were filed in certain jurisdictions, including the United States, in which the plaintiffs allege that Sony Corporation and certain of its subsidiaries violated antitrust laws and seek recovery of damages and other remedies. Based on the stage of these proceedings, it is not possible to estimate the amount of loss or range of possible loss, if any, that might result from adverse judgments, settlements or other resolution of all of these matters.

Beginning in early 2011, the network services of PlayStation®Network, Qriocity, Sony Online Entertainment LLC and websites of other subsidiaries came under cyber-attack. As of May 30, 2013, Sony has not received any confirmed reports of customer identity theft issues or misuse of credit cards from such cyber-attacks. However, in connection with certain of these matters, Sony has received inquiries from authorities in a number of jurisdictions, including orders for reports issued by the Ministry of Economy, Trade and Industry of Japan as well as the Financial Services Agency of Japan, formal and/or informal requests for information from Attorneys General from a number of states in the United States and the U.S. Federal Trade Commission, various U.S. congressional inquiries and others. Additionally, Sony Corporation and/or certain of its subsidiaries have been named in a number of purported class actions in certain jurisdictions, including the United States. Based on

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the stage of these inquiries and proceedings, it is not possible to estimate the amount of loss or range of possible loss, if any, that might result from adverse judgments, settlements or other resolution of all of these matters.

In October 2009, Sony Corporation s U.S. subsidiary, Sony Optiarc America Inc., received a subpoena from the DOJ seeking information about its optical disk drive business. Sony understands that the DOJ, the EU and certain other agencies outside the United States are investigating and/or have investigated competition in optical disk drives. Subsequently, a number of direct and indirect purchaser lawsuits, including class actions, were filed in certain jurisdictions, including the United States, in which the plaintiffs allege that Sony Corporation and certain of its subsidiaries violated antitrust laws and seek recovery of damages and other remedies. Based on the stage of these proceedings, it is not possible to estimate the amount of loss or range of possible loss, if any, that might result from adverse judgments, settlements or other resolution of all of these matters.

In addition, Sony Corporation and certain of its subsidiaries are defendants or otherwise involved in other pending legal and regulatory proceedings. However, based upon the information currently available, Sony believes that the outcome from such legal and regulatory proceedings would not have a material effect on Sony s consolidated financial statements.

(3) Product warranty liabilities:

The changes in product warranty liability for the fiscal years ended March 31, 2011, 2012 and 2013 are as follows:

	Yen in millions Fiscal year ended March 31		
	2011	**2012**	**2013**
Balance at beginning of the fiscal year	50,856	54,940	67,860
Additional liabilities for warranties	48,610	60,073	55,880
Settlements (in cash or in kind)	(36,537)	(39,954)	(55,327)
Changes in estimate for pre-existing warranty reserve	(4,802)	(4,397)	(8,198)
Translation adjustment	(3,187)	(2,802)	6,561
Balance at end of the fiscal year	54,940	67,860	66,776

28. *Business segment information*

The reportable segments presented below are the segments of Sony for which separate financial information is available and for which operating profit or loss amounts are evaluated regularly by the chief operating decision maker (CODM) in deciding how to allocate resources and in assessing performance. The CODM does not evaluate segments using discrete asset information. Sony s CODM is its Chief Executive Officer and President.

Sony realigned its business segments from the first quarter of the fiscal year ended March 31, 2013, to reflect modifications to the organizational structure as of April 1, 2012, primarily repositioning the operations of the previously reported Consumer, Products & Services (CPS), Professional, Device & Solutions (PDS) and Sony Mobile segments. In connection with this realignment, the operations of the former CPS, PDS and Sony Mobile segments are included in five newly established segments, namely the IP&S, Game, MP&C, HE&S, and Devices segments, as well as All Other. The network business previously included in the CPS segment and the medical business previously included in the PDS segment are now included in All Other.

The IP&S segment includes Digital Imaging Products, and Professional Solutions. The MP&C segment includes Mobile Communications, and Personal and Mobile Products. The previously reported Sony Mobile segment is now included in the MP&C segment as the Mobile Communications category. On February 15, 2012, Sony acquired Ericsson s 50% equity interest in Sony Ericsson, which changed its name to

Sony Mobile Communications upon becoming a wholly-owned subsidiary of Sony. The financial results of the MP&C

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segment include Sony s equity in net income (loss) of Sony Ericsson through February 15, 2012 and sales, operating revenue and operating income (loss) from February 16, 2012 through March 31, 2013. Refer to Note 24. The HE&S segment includes Televisions, and Audio and Video. The equity results of S-LCD were also included within the HE&S segment until the termination of the joint venture in January 2012. Refer to Note 5. The Devices segment includes Semiconductors and Components. The Pictures segment is engaged in the development, production and acquisition, manufacture, marketing, distribution and broadcasting of image-based software, including motion picture, home entertainment and television product. The Music segment includes SME, SMEJ and a 50% owned U.S. based joint venture in the music publishing business, Sony/ATV Music Publishing LLC. The Financial Services segment primarily represents individual life insurance and non-life insurance businesses in the Japanese market and a bank business in Japan. All Other consists of various operating activities, including a mobile phone OEM business in Japan, So-net Entertainment Corporation, an Internet-related service business subsidiary operating mainly in Japan, the network business, the medical business and the disc manufacturing business. Sony s products and services are generally unique to a single operating segment. In connection with the realignment, all prior period amounts in the segment disclosures have been restated to conform to the current fiscal year s presentation.

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Sales and operating revenue:

	Yen in millions Fiscal year ended March 31		
	2011	2012	2013
Sales and operating revenue:			
Imaging Products & Solutions			
Customers	906,439	756,625	726,774
Intersegment	9,185	4,692	3,598
Total	915,624	761,317	730,372
Game			
Customers	744,601	679,899	527,110
Intersegment	120,368	125,067	179,968
Total	864,969	804,966	707,078
Mobile Products & Communications			
Customers	631,514	622,415	1,220,013
Intersegment	73	262	37,605
Total	631,587	622,677	1,257,618
Home Entertainment & Sound			
Customers	1,712,324	1,282,728	993,822
Intersegment	640	428	1,005
Total	1,712,964	1,283,156	994,827
Devices			
Customers	771,350	677,208	583,968
Intersegment	380,537	349,360	264,607
Total	1,151,887	1,026,568	848,575
Pictures			
Customers	599,654	656,097	732,127
Intersegment	312	1,624	612
Total	599,966	657,721	732,739
Music			
Customers	457,771	430,751	431,719
Intersegment	12,972	12,038	9,989
Total	470,743	442,789	441,708
Financial Services			
Customers	798,495	868,971	1,004,623
Intersegment	8,031	2,924	3,113
Total	806,526	871,895	1,007,736
All Other			
Customers	449,778	465,745	532,558
Intersegment	70,004	64,598	56,283

Total	519,782	530,343	588,841
Corporate and elimination	(492,775)	(508,220)	(508,643)
Consolidated total	7,181,273	6,493,212	6,800,851

Game intersegment amounts primarily consist of transactions with All Other. Devices intersegment amounts primarily consist of transactions with the Game segment and the IP&S segment. All Other intersegment amounts primarily consist of transactions with the Pictures segment, the Music segment and the Game segment. Corporate and elimination includes certain brand and patent royalty income.

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Segment profit or loss:

	Yen in millions Fiscal year ended March 31		
	2011	2012	2013
Operating income (loss):			
Imaging Products & Solutions	52,439	18,592	1,436
Game	48,494	29,302	1,735
Mobile Products & Communications	5,321	7,246	(97,170)
Home Entertainment & Sound	(73,205)	(203,211)	(84,315)
Devices	34,893	(22,126)	43,895
Pictures	38,669	34,130	47,800
Music	38,927	36,887	37,218
Financial Services	118,818	131,421	145,807
All Other	(13,839)	(54,082)	91,003
Total	250,517	(21,841)	187,409
Corporate and elimination	(50,696)	(45,434)	42,691
Consolidated operating income (loss)	199,821	(67,275)	230,100
Other income	44,966	23,478	68,656
Other expenses	(39,774)	(39,389)	(53,075)
Consolidated income (loss) before income taxes	205,013	(83,186)	245,681

Operating income (loss) is sales and operating revenue less costs and expenses, and includes equity in net income (loss) of affiliated companies.

The MP&C segment includes the fair value remeasurement gain on Sony s previously held 50% equity interest in Sony Ericsson upon obtaining control through the acquisition of Ericsson s 50% equity interest in Sony Ericsson. Refer to Note 24.

All Other includes the gain on sale and remeasurement related to the shares in M3. Refer to Note 5.

Corporate and elimination includes headquarters restructuring costs and certain other corporate expenses, including the amortization of certain intellectual property assets such as the cross-licensing of intangible assets acquired from Ericsson at the time of the Sony Mobile Communications acquisition, which are not allocated to segments. In addition, Corporate and elimination includes gains on the sale of the U.S. headquarters building and Sony City Osaki. Refer to Note 8.

Within the HE&S segment, the operating losses of Televisions, which primarily consists of LCD televisions, for the fiscal years ended March 31, 2011, 2012 and 2013 were 75,600 million yen, 207,470 million yen and 69,602 million yen, respectively. The operating losses of Televisions exclude restructuring charges which are included in the overall segment results and not allocated to product categories.

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Other significant items:

	Yen in millions Fiscal year ended March 31		
	2011	**2012**	**2013**
Equity in net income (loss) of affiliated companies:			
Imaging Products & Solutions	(157)	(154)	743
Game			
Mobile Products & Communications	4,155	(57,680)	
Home Entertainment & Sound	7,214	(64,078)	
Devices	27	(44)	
Pictures	2,483	(516)	(601)
Music	(265)	(372)	(4,766)
Financial Services	(1,961)	(1,252)	(2,303)
All Other	2,566	2,399	(21)
Consolidated total	14,062	(121,697)	(6,948)
Depreciation and amortization:			
Imaging Products & Solutions	36,666	35,951	36,056
Game	13,649	10,848	10,423
Mobile Products & Communications	8,974	9,015	22,503
Home Entertainment & Sound	29,314	27,358	23,573
Devices	106,824	116,971	113,137
Pictures	7,996	10,825	10,424
Music	12,166	10,789	11,414
Financial Services, including deferred insurance acquisition costs	62,077	56,322	56,305
All Other	21,574	19,548	18,302
Total	299,240	297,627	302,137
Corporate	26,126	21,967	28,417
Consolidated total	325,366	319,594	330,554

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The following table includes a breakdown of sales and operating revenue to external customers by product category in the following segments: IP&S, MP&C, HE&S and Devices. The IP&S, MP&C, HE&S and Devices segments are each managed as a single operating segment by Sony s management.

	Yen in millions		
	Fiscal year ended March 31		
	2011	2012	2013
Sales and operating revenue:			
Imaging Products & Solutions			
Digital Imaging Products	628,358	489,526	449,724
Professional Solutions	268,687	256,871	259,899
Other	9,394	10,228	17,151
Total	906,439	756,625	726,774
Game	744,601	679,899	527,110
Mobile Products & Communications			
Mobile Communications		77,732	733,622
Personal and Mobile Products	625,200	538,816	480,132
Other	6,314	5,867	6,259
Total	631,514	622,415	1,220,013
Home Entertainment & Sound			
Televisions	1,200,487	840,359	581,475
Audio and Video	502,684	433,800	405,024
Other	9,153	8,569	7,323
Total	1,712,324	1,282,728	993,822
Devices			
Semiconductors	359,321	377,177	301,915
Components	409,165	295,822	271,654
Other	2,864	4,209	10,399
Total	771,350	677,208	583,968
Pictures	599,654	656,097	732,127
Music	457,771	430,751	431,719
Financial Services	798,495	868,971	1,004,623
All Other	449,778	465,745	532,558
Corporate	109,347	52,773	48,137
Consolidated total	7,181,273	6,493,212	6,800,851

Mobile Communications includes sales and operating revenue of Sony Mobile from February 16, 2012 through March 31, 2013.

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SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES

Geographic Information:

Sales and operating revenue attributed to countries based on location of external customers for the fiscal years ended March 31, 2011, 2012 and 2013 and property, plant and equipment, net as of March 31, 2012 and 2013 are as follows:

	Yen in millions Fiscal year ended March 31		
	2011	**2012**	**2013**
Sales and operating revenue:			
Japan	2,152,552	2,104,669	2,203,228
United States	1,443,693	1,211,849	1,064,765
Europe	1,539,432	1,268,258	1,362,488
China	562,048	495,101	464,784
Asia-Pacific	726,364	636,489	806,205
Other Areas	757,184	776,846	899,381
Total	7,181,273	6,493,212	6,800,851

	Yen in millions March 31	
	2012	**2013**
Property, plant and equipment, net:		
Japan	699,647	617,581
United States	82,914	74,359
Europe	55,192	53,460
China	39,388	48,689
Asia-Pacific	37,060	48,977
Other Areas	16,797	18,484
Total	930,998	861,550

Major areas in each geographic segment excluding Japan, United States and China are as follows:

(1) Europe:	United Kingdom, France, Germany, Russia, Spain and Sweden
(2) Asia-Pacific:	India, South Korea and Oceania
(3) Other Areas:	The Middle East/Africa, Brazil, Mexico and Canada

There are not any individually material countries with respect to the sales and operating revenue and property, plant and equipment, net included in Europe, Asia-Pacific and Other Areas.

Transfers between reportable business segments or geographic areas are made at amounts which Sony s management believes approximate arms-length transactions.

There were no sales and operating revenue with any single major external customer for the fiscal years ended March 31, 2011, 2012 and 2013.

29. *Subsequent events*

On May 15, 2013, Sony entered into sale and leaseback transactions regarding certain machinery and equipment with leasing companies including its equity interest affiliate, SFIL, with proceeds of 76,566 million yen. The leasebacks were capital leases with terms that average three years. There was no gain or loss recorded in the sale and leaseback transactions.

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SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS

SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES

	Yen in millions				
	Balance at beginning of period	Additions charged to costs and expenses	Deductions (Note 1)	Other (Note 2)	Balance at end of period
Fiscal year ended March 31, 2011:					
Allowance for doubtful accounts and sales returns	104,475	50,345	(55,106)	(9,183)	90,531
Fiscal year ended March 31, 2012:					
Allowance for doubtful accounts and sales returns	90,531	33,441	(49,509)	(3,454)	71,009
Fiscal year ended March 31, 2013:					
Allowance for doubtful accounts and sales returns	71,009	26,960	(37,823)	7,479	67,625

Notes:

1. Reversal including amounts written off.

2. Translation adjustment.

	Balance at beginning of period	Additions (Note 1)	Deductions	Other (Note 2)	Balance at end of period
Fiscal year ended March 31, 2011:					
Valuation allowance Deferred tax assets	126,253	381,837	(28,736)	(5,641)	473,713
Fiscal year ended March 31, 2012:					
Valuation allowance Deferred tax assets	473,713	469,788	(22,904)	(52,364)	868,233
Fiscal year ended March 31, 2013:					
Valuation allowance Deferred tax assets	868,233	86,215	(59,179)	35,978	931,247

Notes:

1. Includes a valuation allowance against deferred tax assets which Sony Ericsson had prior to its acquisition during the fiscal year ended March 31, 2012. Refer to Note 21 of the consolidated financial statements.

2. Translation adjustment and the effect of changes in the statutory tax rate.

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