

SONY CORP  
Form 20-F  
September 01, 2006

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 20-F**

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

For the fiscal year ended March 31, 2006

Commission file number 1-6439

**Sony Kabushiki Kaisha**

*(Exact name of Registrant as specified in its charter)*

**SONY CORPORATION**

*(Translation of Registrant's name into English)*

**JAPAN**

*(Jurisdiction of incorporation or organization)*

**7-35, KITASHINAGAWA 6-CHOME, SHINAGAWA-KU,  
TOKYO 141-0001, JAPAN**

*(Address of principal executive offices)*

Securities registered pursuant to Section 12(b) of the Act.

**Title of Each Class**

**Name of Each Exchange on Which Registered**

American Depositary Shares\*

New York Stock Exchange

Common Stock\*\*

New York Stock Exchange

\* American Depositary Shares evidenced by American Depositary Receipts.

Each American Depositary Share represents one share of Common Stock.

\*\* No par value per share.

Not for trading, but only in connection with the listing of American Depositary Shares pursuant to the requirements of the New York Stock Exchange.

Securities registered pursuant to Section 12(g) of the Act.

**None**

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

**None**

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

**Outstanding as of**

**March 31, 2006  
(Tokyo Time)**

**March 30, 2006  
(New York Time)**

**Title of Class**

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|                            |               |             |
|----------------------------|---------------|-------------|
| Common Stock               | 1,000,938,776 |             |
| American Depositary Shares |               | 145,074,404 |

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

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes  No

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  No

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

Accelerated Filer

Non-Accelerated Filer

Indicate by check mark which financial statement item the registrant has elected to follow. Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

In this document, Sony Corporation and its consolidated subsidiaries are together referred to as "Sony." In addition, sales and operating revenue is referred to as "sales" in the narrative description except in the Consolidated Financial Statements.

The noon buying rate for yen in New York City as certified for customs purposes by the Federal Reserve Bank of New York on August 30, 2006 was 117.07 yen = 1 U.S. dollar.

As of March 31, 2006, Sony Corporation had 936 consolidated subsidiaries (including variable interest entities). It has applied the equity accounting method with respect to its 58 affiliated companies.

**Table of Contents****Cautionary Statement**

Statements made in this annual report with respect to Sony's current plans, estimates, strategies and beliefs and other statements that are not historical facts are forward-looking statements about the future performance of Sony. Forward-looking statements include, but are not limited to, those statements using words such as believe, expect, plans, strategy, prospects, forecast, estimate, project, anticipate, aim, may or might and words of connection with a discussion of future operations, financial performance, events or conditions. From time to time, oral or written forward-looking statements may also be included in other materials released to the public. These statements are based on management's assumptions and beliefs in light of the information currently available to it. Sony cautions you that a number of important risks and uncertainties could cause actual results to differ materially from those discussed in the forward-looking statements, and therefore you should not place undue reliance on them. You also should not rely on any obligation of Sony to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Sony disclaims any such obligation. Risks and uncertainties that might affect Sony include, but are not limited to (i) the global economic environment in which Sony operates, as well as the economic conditions in Sony's markets, particularly levels of consumer spending; (ii) exchange rates, particularly between the yen and the U.S. dollar, the Euro and other currencies in which Sony makes significant sales or in which Sony's assets and liabilities are denominated; (iii) Sony's ability to continue to design and develop and win acceptance of, as well as achieve sufficient cost reductions for, its products and services, which are offered in highly competitive markets characterized by continual new product introductions, rapid development in technology and subjective and changing consumer preferences (particularly in the Electronics, Game and Pictures segments, and music business); (iv) Sony's ability to recoup large-scale investment required for technology development, increasing production capacity and by the Game segment for the development and introduction of a new platform; (v) Sony's ability to implement successfully personnel reduction and other business reorganization activities in its Electronics segment; (vi) Sony's ability to implement successfully its network strategy for its Electronics, Game and Pictures segments, All Other and the music business, and to develop and implement successful sales and distribution strategies in its Pictures segment and music business in light of the Internet and other technological developments; (vii) Sony's continued ability to devote sufficient resources to research and development and, with respect to capital expenditures, to correctly prioritize investments (particularly in the Electronics segment); (viii) shifts in customer demand for financial services such as life insurance and Sony's ability to conduct successful Asset Liability Management in the Financial Services segment; and (ix) the success of Sony's joint ventures and alliances. Risks and uncertainties also include the impact of any future events with material unforeseen impacts.

Important information regarding risks and uncertainties is also set forth elsewhere in this annual report, including in Risk Factors included in Item 3. *Key Information*, Item 4. *Information on the Company*, Item 5. *Operating and Financial Review and Prospects*, Legal Proceedings included in Item 8. *Financial Information*, Sony's Consolidated Financial Statements referenced in Item 8. *Financial Information*, and Item 11. *Quantitative and Qualitative Disclosures about Market Risk*.

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Not Applicable

**Item 2. Offer Statistics and Expected Timetable**

Not Applicable

**Item 3. Key Information****Selected Financial Data****Fiscal Year Ended March 31**

|  | 2002 | 2003 | 2004 | 2005 | 2006 |
|--|------|------|------|------|------|
|--|------|------|------|------|------|

(Yen in millions, Yen per share amounts)

**Income Statement Data:**

|   |           |           |           |           |           |
|---|-----------|-----------|-----------|-----------|-----------|
| Sales and operating revenue                           | 7,578,258 | 7,473,633 | 7,496,391 | 7,159,616 | 7,475,436 |
| Operating income                                      | 134,631   | 185,440   | 98,902    | 113,919   | 191,255   |
| Income before income taxes                            | 92,775    | 247,621   | 144,067   | 157,207   | 286,329   |
| Income taxes  | 65,211    | 80,831    | 52,774    | 16,044    | 176,515   |
| Income before cumulative effect of accounting changes | 9,332     | 115,519   | 90,628    | 168,551   | 123,616   |
| Net income  | 15,310    | 115,519   | 88,511    | 163,838   | 123,616   |

**Data per Share of Common Stock:**

|   |               |               |               |               |               |
|---|---------------|---------------|---------------|---------------|---------------|
| Income before cumulative effect of accounting changes |               |               |               |               |               |
| Basic   | 10.21         | 125.74        | 98.26         | 180.96        | 122.58        |
| Diluted   | 10.18         | 118.21        | 89.03         | 162.59        | 116.88        |
| Net income  |               |               |               |               |               |
| Basic   | 16.72         | 125.74        | 95.97         | 175.90        | 122.58        |
| Diluted   | 16.67         | 118.21        | 87.00         | 158.07        | 116.88        |
| Cash dividends declared                               |               |               |               |               |               |
| Interim   | 12.50         | 12.50         | 12.50         | 12.50         | 12.50         |
|   | (10.07 cents) | (10.50 cents) | (11.37 cents) | (12.12 cents) | (10.36 cents) |
| Fiscal year-end                                       | 12.50         | 12.50         | 12.50         | 12.50         | 12.50         |
|   | (9.78 cents)  | (10.53 cents) | (11.26 cents) | (11.29 cents) | (11.04 cents) |

**Depreciation and**

|                      |         |         |         |         |         |
|----------------------|---------|---------|---------|---------|---------|
| <b>amortization*</b> | 354,135 | 351,925 | 366,269 | 372,865 | 381,843 |
|----------------------|---------|---------|---------|---------|---------|

**Capital expenditures**

|                                    |         |         |         |         |         |
|------------------------------------|---------|---------|---------|---------|---------|
| <b>(additions to fixed assets)</b> | 326,734 | 261,241 | 378,264 | 356,818 | 384,347 |
|------------------------------------|---------|---------|---------|---------|---------|

**Research and development**

|              |         |         |         |         |         |
|--------------|---------|---------|---------|---------|---------|
| <b>costs</b> | 433,214 | 443,128 | 514,483 | 502,008 | 531,795 |
|--------------|---------|---------|---------|---------|---------|

**Balance Sheet Data:**

|  |           |           |           |           |            |
|--|-----------|-----------|-----------|-----------|------------|
| Net working capital  | 778,716   | 719,166   | 381,140   | 746,803   | 569,296    |
| Long-term debt   | 838,617   | 807,439   | 777,649   | 678,992   | 764,898    |
| Stockholders equity  | 2,370,410 | 2,280,895 | 2,378,002 | 2,870,338 | 3,203,852  |
| Total assets   | 8,185,795 | 8,370,545 | 9,090,662 | 9,499,100 | 10,607,753 |
| Number of shares issued at fiscal year-end (thousands of shares of common stock) | 919,744   | 922,385   | 926,418   | 997,211   | 1,001,680  |



|  |          |          |          |          |          |
|--|----------|----------|----------|----------|----------|
| Stockholders equity per share<br>of common stock | 2,570.31 | 2,466.81 | 2,563.67 | 2,872.21 | 3,200.85 |
|--|----------|----------|----------|----------|----------|

\* Depreciation and amortization includes amortization expenses for intangible assets and for deferred insurance acquisition costs.

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|  | Average* | High   | Low    | Period-End |
|--|----------|--------|--------|------------|
|  | (Yen)    |        |        |            |
| <b>Yen Exchange Rates per U.S. Dollar:</b> |          |        |        |            |
| Fiscal year ended March 31                 |          |        |        |            |
| 2002                                       | 125.64   | 115.89 | 134.77 | 132.70     |
| 2003                                       | 121.10   | 115.71 | 133.40 | 118.07     |
| 2004                                       | 113.07   | 120.55 | 104.18 | 104.18     |
| 2005                                       | 107.49   | 114.30 | 102.26 | 107.22     |
| 2006                                       | 113.15   | 120.93 | 104.41 | 117.78     |
| 2006                                       |          |        |        |            |
| January                                    |          | 117.55 | 113.96 | 116.88     |
| February                                   |          | 118.95 | 115.82 | 115.82     |
| March                                      |          | 119.07 | 115.89 | 117.48     |
| April                                      |          | 118.66 | 113.79 | 113.79     |
| May  |          | 113.46 | 110.07 | 112.26     |
| June                                       |          | 116.42 | 111.66 | 114.51     |
| July                                       |          | 117.44 | 113.97 | 114.44     |
| August (through August 30)                 |          | 117.31 | 114.21 | 117.07     |

The noon buying rate for yen in New York City as certified for customs purposes by the Federal Reserve Bank of New York on August 30, 2006 was 117.07 yen = 1 U.S. dollar.

\* The average yen exchange rates represent average noon buying rates on the last business day of each month during the respective period.

**Notes to Selected Financial Data:**

- In July 2003, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position ( SOP ) 03-1, Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts . SOP 03-1 requires insurance enterprises to record additional reserves for long-duration life insurance contracts with minimum guarantee or annuity receivable options. Additionally, SOP 03-1 provides guidance for the presentation of separate accounts. This statement is effective for fiscal years beginning after December 15, 2003. Sony adopted SOP 03-1 on April 1, 2004. As a result of the adoption of SOP 03-1, Sony 's operating income decreased by 5,156 million yen for the fiscal year ended March 31, 2005. Additionally, on April 1, 2004, Sony recognized a charge of 4,713 million yen (net of income taxes of 2,675 million yen) as a cumulative effect of an accounting change.
- In July 2004, the Emerging Issues Task Force ( EITF ) issued EITF Issue No. 04-8, The Effect of Contingently Convertible Instruments on Diluted Earnings per Share . In accordance with Statement of Financial Accounting Standards ( FAS ) No. 128, Earnings per Share , Sony had not previously included in the computation of diluted earnings per share ( EPS ) the number of potential common stock issuable upon the conversion of contingently convertible debt instruments ( Co-Cos ) that had not met the conditions to exercise the stock acquisition rights. EITF Issue No. 04-8 requires that the maximum number of common stock that could be issued upon the conversion of Co-Cos be included in diluted EPS computations from the date of issuance regardless of whether the conditions to exercise the stock acquisition rights have been met. EITF Issue No. 04-8 is effective for reporting periods ending after December 15, 2004. Sony adopted EITF Issue No. 04-8 during the quarter ended December 31, 2004. As a result of the adoption of EITF Issue No. 04-8, Sony 's diluted EPS of income before cumulative effect of an accounting change and net income for the fiscal year ended March 31, 2004 were restated.

Sony's diluted EPS of income before cumulative effect of an accounting change and net income for the fiscal year ended

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March 31, 2005 decreased by 7.26 yen and 7.06 yen, respectively, as a result of adopting EITF Issue No. 04-8.

3. In January 2003, the Financial Accounting Standards Board ( FASB ) issued FASB Interpretation ( FIN ) No. 46, Consolidation of Variable Interest Entities – an Interpretation of Accounting Research Bulletin ( ARB ) No. 51 . FIN No. 46 addresses consolidation by a primary beneficiary of a variable interest entity ( VIE ). Sony early adopted the provisions of FIN No. 46 on July 1, 2003. As a result of adopting the original FIN No. 46, Sony recognized a one-time charge with no tax effect of 2,117 million yen as a cumulative effect of accounting change in the consolidated statement of income, and Sony’s assets and liabilities increased by 95,255 million yen and 97,950 million yen, respectively. These increases were treated as non-cash transactions in the consolidated statement of cash flows. In addition, cash and cash equivalents increased by ¥1,521 million. Sony subsequently early adopted the provisions of FIN No. 46R, which replaced FIN No. 46, upon issuance in December 2003. The adoption of FIN No. 46R did not have an impact on Sony’s results of operations and financial position or impact the way Sony had previously accounted for VIEs.

**Capitalization and Indebtedness**

Not Applicable

**Reasons for the Offer and Use of Proceeds**

Not Applicable

**Risk Factors**

This section contains forward-looking statements that are subject to the Cautionary Statement appearing on page 2 of this annual report. Risks to Sony are also discussed elsewhere in this annual report, including without limitation in the other sections of this annual report referred to in the Cautionary Statement.

***Sony must overcome increasingly intense pricing competition, especially in the Electronics and Game segments.***

Sony’s Electronics segment produces consumer products that compete against products sold by an increasing number of competitors on the basis of factors including price. In order to produce products that appeal to changing and increasingly diverse consumer preferences, and to overcome the fact that a relatively high percentage of consumers already possess products similar to those that Sony offers, Sony’s Electronics and Game segments must develop superior technology, anticipate consumer tastes and rapidly develop attractive products. In the Electronics segment, Sony faces increasingly intense pricing pressure in a variety of consumer product areas. Sony’s sales and operating income depend on Sony’s ability to continue to develop and offer Electronics and Game products at competitive prices that meet changing and increasingly diverse consumer preferences.

***Sony is subject to competition from firms that may be more specialized.***

Sony’s businesses, primarily within the Electronics segment, face a broad range of competitors, from large international companies to an increasing number of relatively small, rapidly growing, and highly specialized organizations. Sony has a portfolio of businesses in different industries while many of its competitors specialize in one or more of these business areas. As a result, Sony may not fund or invest in certain of its businesses to the same degree that its competitors do, and these competitors may have greater financial, technical, and marketing resources available to them than the businesses of Sony against which they compete.

**Table of Contents*****Sony may not be able to recover its increasingly diverse and increasingly expensive investments in technology development and production capacity.***

Sony's businesses, particularly the Electronics and Game segments, compete in intensely competitive markets characterized by changing consumer preferences and rapid technological innovation. In order to be profitable in such markets, Sony is continuing to invest heavily in research and development and semiconductor fabrication equipment. Recent examples of such expenditures include research and development investment in 65 nanometer semiconductor process technology and related capital expenditures with IBM Corporation and Toshiba Corporation for production of the Cell chip within the Electronics segment for sale primarily to the Game segment, and an investment in a joint venture, S-LCD Corporation ( S-LCD ), with Samsung Electronics Co., Ltd. ( Samsung ) to produce 7th generation amorphous thin film transistor ( TFT ) LCD panels. In addition, in July 2006, Sony and Samsung signed the final contract regarding the manufacture of 8th generation TFT LCD Panels at S-LCD. The total amount of the investment required is expected to be approximately 1.9 billion U.S. dollars (approximately 50 percent of which will be borne by Sony). Sony may not be able to recover these investments, in part or in full, and its mid-term profitability could be adversely affected as a result. (Refer to Trend Information in Item 5. *Operating and Financial Review and Prospects.* )

***Sony's business reorganization efforts are costly and may not attain their objectives.***

Sony has engaged in significant reorganization initiatives in an effort to allocate managerial resources into core areas and improve operating efficiency and profitability. These efforts have included the concentration of resources into profitable businesses by withdrawing from or downsizing selected businesses. Other efforts include the execution of a plan to reduce costs including a reduction in the number of Sony's employees around the world.

On September 22, 2005, Sony announced its mid-term corporate strategy for the three fiscal years ending March 31, 2006 through March 31, 2008. This mid-term corporate strategy includes restructuring initiatives focused on the reduction in the number of business categories and the number of product models, the rationalization of manufacturing sites, the streamlining of administrative and headquarter functions, as well as the sale of non-core assets.

In association with these restructuring initiatives 138.7 billion yen of restructuring charges were recorded for the fiscal year ended March 31, 2006. Sony anticipates the recording of 50 billion yen in restructuring charges for the fiscal year ending March 31, 2007.

Restructuring charges are recorded in cost of sales, selling, general and administrative expenses and loss on sale, disposal or impairment of assets, net and thus decrease Sony's consolidated operating and net income. Moreover, due to internal or external factors, the improved efficiencies and cost savings projected may not be realized as scheduled and, even if those benefits are realized, Sony may not be able to achieve the level of profitability expected due to a worsening of market conditions beyond expectations. Such possible internal factors could include, for example, a decision to implement new restructuring initiatives not already planned or a decision to increase research and development outlays or other investments beyond currently projected levels, either of which might increase total costs. Possible external factors could include, for example, increased burdens from regional labor regulations and union contracts that could prevent Sony from executing its restructuring initiatives as planned. Therefore, such reorganizations may not result in improved efficiency, increased ability to respond to market changes or reallocation of resources to more profitable activities. The inability to fully and successfully implement restructuring programs may cause Sony to have insufficient financial resources to carry out its research and development plans and to invest in targeted growth business areas.

***Foreign exchange rate fluctuations can affect financial results because a large portion of Sony's sales and assets are denominated in currencies other than the yen.***

Sony's consolidated statements of income are prepared from the local currency-denominated financial results of each of Sony Corporation's subsidiaries around the world which are translated into yen at the

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average market rate during each financial period. Sony's consolidated balance sheets are prepared using local currency-denominated assets and liabilities of each of Sony Corporation's subsidiaries around the world, which are translated into yen at the market rate at the end of each financial period. A large proportion of Sony's consolidated financial results, assets and liabilities is accounted for in currencies other than the Japanese yen. For example, only 29.0 percent of Sony's sales and operating revenue in the fiscal year ended March 31, 2006 were originally recorded in Japan. Accordingly, Sony's consolidated results, assets and liabilities in Sony's businesses that operate internationally, principally in its Electronics, Game and Pictures segments, may be materially affected by changes in the exchange rates of foreign currencies when translating into Japanese yen. In the fiscal year ended March 31, 2006, for example, Sony's consolidated operating income prepared on the basis of Generally Accepted Accounting Principles in the U.S. ( U.S. GAAP ) in yen increased from the preceding fiscal year by 67.9 percent; however, if Sony's consolidated operating income had been prepared on a local currency basis, it would have increased by 23 percent. (Refer to Operating Results in Item 5. *Operating and Financial Review and Prospects.* ) Operating results on a local currency basis described herein reflect sales and operating revenue and operating income obtained by applying the yen's monthly average exchange rate in the previous fiscal year to local currency-denominated monthly sales, cost of sales, and selling, general and administrative expenses in the current fiscal year. Foreign exchange fluctuations may have a negative impact on Sony's results in the future, especially if the yen strengthens significantly against the U.S. dollar or Euro.

***Foreign exchange fluctuations can affect Sony's results of operations due to sales and expenses in different currencies.***

Exchange rate fluctuations affect Sony's operating profitability because many of Sony's products are sold in countries other than the ones in which they were manufactured. The concentration of research and development, administrative functions and manufacturing activities within the Electronics segment largely in Japan, makes this segment particularly sensitive to the yen's appreciation as the ratio of yen-denominated costs to total costs is higher than the ratio of yen-denominated revenue to total revenue. Volatile mid- to long-term changes in exchange rate levels, such as the decade-long strengthening of the yen against major currencies between 1985 and 1995, when the yen appreciated from a level in excess of 260 yen to the U.S. dollar to a level of less than 80 yen to the U.S. dollar, may interfere with Sony's global allocation of resources and hinder Sony's ability to execute procurement, production, logistics, and sales activities in a manner that is profitable after the effect of such exchange rate changes.

Although Sony hedges the net foreign currency exposure resulting from import and export transactions shortly before they are projected to occur, such hedging activity cannot entirely eliminate the risk of adverse exchange rate fluctuations.

***Sony must efficiently manage its procurement of parts, the market conditions for which are volatile, and control its inventory of products and parts, the demand for which is volatile.***

In the Electronics and Game segments Sony places orders for components, determines production and plans inventory in advance based on its forecast of consumer demand, which is highly volatile and difficult to predict. In the past Sony has experienced both a shortage of semiconductors, which resulted in Sony's inability to meet demand for its personal computers ( PCs ) and audio visual products, and a surplus in certain semiconductors that resulted in the recognition of losses when semiconductor prices fell. Sony consumes a tremendous volume of parts and components for its products such as semiconductors and LCD panels. Consequently, market fluctuations may cause a shortage of parts and components, and may affect Sony's production or the cost of goods sold. Sony's profitability may also be adversely affected by supply or inventory shortages or inventory adjustments that, as a result of efforts to reduce inventory by temporarily halting production or by reducing the price of goods, will lead to an increase in the ratio of cost of sales to sales. Sony writes down the value of its inventory when components or products have become obsolete, when inventory exceeds the amount expected to be used, or when the value of the inventory is otherwise recorded at a higher value than net realizable value. Such inventory adjustments have had and, if Sony is not successful in managing its inventory in the future, will have a material adverse effect on Sony's operating income and

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profitability. (For more information on sources of supply refer to *Sources of Supply* in Item 4. *Information on the Company.* )

***Sony's sales and profitability are sensitive to economic trends in Sony's major markets.***

A consumer's decision to purchase products such as those offered by Sony's Electronics, Game and Pictures segments, as well as by companies within All Other, is to a very significant extent discretionary. Accordingly, weakening economic conditions or outlook can reduce consumption in any of Sony's major markets, causing material declines in Sony's sales and operating income. In the fiscal year ended March 31, 2006, 29.0 percent, 26.2 percent and 23.0 percent of Sony's sales and operating revenue were attributable to Japan, the U.S. and Europe, respectively. If economic conditions in Japan, the U.S. or Europe deteriorate, or if the effects of international political and military instability depress consumer confidence, Sony's short- to mid-term sales and profitability may be significantly adversely affected.

***Large-scale investment is required within the Game and Electronics segments, particularly during the development and launch period of a new gaming platform.***

Within the Game segment, providing and developing products that maintain competitiveness over an extended life-cycle requires large-scale investment relating to research and development, particularly during the development and launch period of a new platform. In addition, large-scale investment relating to capital expenditures and research and development is also required within the Electronics segment for the fabrication and manufacture of key components, including semiconductors, used in products within the Game segment. Moreover, it is particularly important in the Game segment that these products be provided to consumers at competitive prices to ensure the favorable market penetration of the platform. Should the platform fail to achieve such favorable market penetration, there is a risk that part of, or the whole of, this investment will not be recouped, resulting in a significant negative impact on Sony's mid-term profitability. In addition, even if Sony is able to sufficiently recoup its investment, it is probable that a significant negative impact on Sony's operating results could occur during the launch period of the platform.

An example of this kind of large-scale investment is the new PLAYSTATION®3 ( PS3 ) platform scheduled to be launched in November 2006, related charges for which are anticipated to result in a significant loss within the Game segment for the fiscal year ending March 31, 2007, reflecting primarily an expected negative margin as a result of strategic pricing on PS3 hardware sales. In connection with this, during the fiscal year ended March 31, 2006, a write-down of approximately 25.0 billion yen for semiconductor components for use in PS3 was recorded within the Game segment.

***Sony's Game and Electronics segments are particularly sensitive to year-end holiday season demand.***

Since the Game segment offers a relatively small range of hardware products (including PlayStation®2 and PSP™ (PlayStation®Portable)) and a significant portion of overall demand is weighted towards the year-end holiday season, factors such as changes in the competitive environment, changes in market conditions, delays in the release of highly anticipated software titles and insufficient supply of hardware during the year-end holiday season can negatively impact the financial performance of the segment.

The Electronics segment is also dependent upon year-end holiday season demand and, to a lesser extent than the Games segment, is susceptible to weak sales and supply shortages that prevent it from meeting demand for its products during this season.

***Operating results for Sony's Pictures segment vary according to the cost of productions, customer acceptance, and competing products.***

Operating results for the Pictures segment's motion picture and television productions can materially fluctuate depending primarily upon the cost of such productions and acceptance of such productions by the public, which are difficult to predict. In addition, the commercial success of the Pictures segment's motion picture and television productions depend upon the acceptance of other competing productions, and the availability of alternative forms of entertainment and leisure activities.

**Table of Contents*****Sony's Pictures segment is subject to labor interruption.***

The Pictures segment is dependent upon highly specialized union members who are essential to the production of motion pictures and television programs. A strike by one or more of these unions could delay or halt production activities. Such a delay or halt, depending on the length of time involved, could cause delay or interruption in the release of new motion pictures and television programs and thereby could adversely affect revenues and cash flows in the Pictures segment.

***In addition to the need for maintaining a prudent and prescient Asset Liability Management, Sony's Financial Services segment is subject to unrealized holding losses and valuation losses associated with market fluctuations, shifts in customers' demand and a variability in claims, at Sony Life Insurance Co., Ltd., Sony Assurance Inc. and Sony Bank Inc., as well as mandatory contributions to the Life Insurance Policyholders Protection Corporation of Japan by Sony Life.***

Sony's Financial Services segment faces rapid shifts in customer demand from more profitable protection-orientated products such as term insurance to less profitable savings-oriented products such as endowment insurance, as well as a risk of unpredictable increases in insurance claims. This segment also may incur valuation losses and unrealized holding losses if there is a decrease in the value of securities and other financial instruments purchased for investment purposes resulting from fluctuations in interest rates, foreign exchange rates, or in the equity markets. In addition, if it fails to conduct Asset Liability Management (ALM) in a prudent and prescient manner to pursue an optimal combination of possible risks and expected returns on investment assets, financing liabilities and underwriting risks on insurance policy benefits, Sony's Financial Services segment may not be able to keep providing competitive products and services to customers on a long-term basis. Sony Life Insurance Co., Ltd. (Sony Life), which constitutes the largest portion of this segment, is also subject to mandatory contributed reserves for the Life Insurance Policyholders Protection Corporation of Japan (PPC), the organization that provides support to insolvent life insurance companies. Sony Life's estimated required contribution based on the assessments made by the PPC is incorporated in other expenses within Sony Life's statements of income and long-term liabilities in its balance sheets. If there are bankruptcies of life insurers, solvent life insurers including Sony Life may be required to contribute additional financial resources.

***Sony's Music business, Sony's investment in SONY BMG MUSIC ENTERTAINMENT, and the Pictures segment are subject to digital piracy, which may become increasingly more prevalent with the development of new technologies.***

In Sony's Music business, including its investment in SONY BMG MUSIC ENTERTAINMENT (SONY BMG), as well as in the Pictures segment, the development of digital technology has created new risks with respect to Sony's ability to protect its copyrights. Advances in technology that enable the transfer and downloading of digital audio and visual files from the Internet without authorization from the owners of rights to such content threaten the conventional copyright-based business model by making it easier to create and redistribute unauthorized audio and visual files. Such unauthorized distribution has adversely affected sales and operating results within the Music business, as well as in Sony's investment in SONY BMG, and threatens to adversely affect sales and operating income in the Pictures segment. These technological advances include new digital devices such as hard disk drive video and audio recorders, CD and DVD recorders and peer-to-peer digital distribution services. As a result, Sony has incurred and will continue to incur expenses to develop new services for the authorized digital distribution of music, movies and television programs and to combat unauthorized digital distribution of its copyrighted content. These initiatives will increase Sony's near-term expenses and may not achieve their intended result.

***Sony's Music business and Sony's investment in SONY BMG are dependent on establishing new artists, and together with Sony's Pictures segment are subject to increasing prices for talent.***

The success of Sony's Music business and Sony's investment in SONY BMG is highly dependent on establishing artists that appeal to customers, and the competition with other entertainment companies for such talent is intense. If the Music business and SONY BMG are unable to find and establish new talented artists,



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sales, operating income and equity in net income (loss) of affiliated companies may be adversely affected. In addition, with respect to the Music business and the Pictures segment, as well as SONY BMG, Sony has experienced and may continue to experience significant increases in talent-related spending.

***SONY BMG is subject to renewed regulatory approval from European Union competition authorities.***

In August 2004, Sony combined its recorded music business outside of Japan with the recorded music business of Bertelsmann AG forming SONY BMG, after approval from, among others, the European Commission competition authorities. On December 3, 2004, Impala, an international association consisting of 2,500 independent recorded music companies applied for annulment of the decision to clear the merger. On July 13, 2006, the European Court of First Instance overruled the Commission's decision to allow the merger to go forward, requiring the Commission to re-examine the merger. While the Commission completes its reexamination, Sony continues to account for the results of Sony BMG under the equity method. If the Commission does not approve the merger and the previously combined company is forced to unwind the merger, Sony may incur significant costs and may not be able to achieve its objectives with respect to its recorded music business.

***Sony may not be successful in implementing its broadband network strategy.***

Sony believes that the utilization of broadband networks to facilitate the integration of hardware and content is essential to differentiating itself in the marketplace. Sony also believes that this strategy will eventually lead to consistent revenue streams. However, this strategy depends on the development (both inside and outside of Sony) of certain network technologies, coordination among Sony's various business units, and the standardization of technological and interface specifications across business units and within industries. If Sony is not successful in implementing this strategy, it could adversely affect Sony's mid- to long-term competitiveness.

***Sony's utilization of joint ventures and alliances within strategic business areas may not be successful.***

The composition of Sony during the last several years has reflected a shift towards the establishment of joint ventures and strategic alliances in order to supplement or replace functions that were previously performed by divisions of Sony Corporation or wholly-owned subsidiaries, to mitigate the burden of substantial investments and to achieve operating efficiencies through cooperation with other companies.

Sony currently has investments in several joint ventures, including Sony Ericsson Mobile Communications, AB (Sony Ericsson), S.T. Liquid Crystal Display Corporation (ST-LCD), a joint venture with Toyota Industries Corporation, and other companies. In April 2004, Sony established S-LCD, a joint venture with Samsung for the production of 7th generation amorphous TFT LCD panels. In August 2004, Sony combined its recorded music business outside of Japan with the recorded music business of Bertelsmann AG forming the jointly-owned company, SONY BMG. In April 2005, a consortium led by Sony Corporation of America and its equity partners, Providence Equity Partners, Texas Pacific Group, Comcast Corporation and DLJ Merchant Banking Partners, completed the acquisition of Metro-Goldwyn-Mayer Inc. (MGM). If Sony and its partners are not able to reach their common financial objectives successfully, Sony's financial performance as a whole may be adversely affected. Sony's financial performance may also be temporarily adversely affected by the establishment of those alliances, joint ventures and strategic investments even if Sony and its partners remain on course to achieve those common objectives. Recent examples of how Sony's financial performance has been adversely affected in the course of these types of relationships are the equity in net losses recorded for MGM Holdings, Inc. and S-LCD during the fiscal year ended March 31, 2006 of 16.9 billion yen and 7.2 billion yen, respectively.

***Sony's physical facilities and information systems are subject to damage as a result of disasters, outages, malfeasance or similar events.***

Sony's headquarters, some of Sony's major data centers and many of Sony's most advanced device manufacturing facilities, including those for semiconductors, are located in Japan, where the possibility of

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disaster or damage from earthquake is generally higher than in other parts of the world. In addition, Sony's offices and facilities, including those used for research and development, material procurement, manufacturing, logistics, sales and services are located throughout the world and are subject to possible destruction, temporary stoppage or disruption as a result of any number of unexpected events. If any of these facilities or offices were to experience a significant loss as a result of any of the above events, it could disrupt Sony's operations, delay production, shipments and revenue, and result in large expenses to repair or replace these facilities or offices.

In addition, as network and information systems become more important to Sony's operating activities, network and information system shutdowns caused by unforeseen events such as power outages, disasters, terrorist attack, hardware or software defects, computer viruses and computer hacking pose increasing risks. Such an event could also result in the disruption of Sony's operations, delay production, shipments and revenue, and result in large expenditures necessary to repair or replace such network information systems. Furthermore, Sony's operating activities could be subject to risks caused by misappropriation, misuse, leakage, falsification, and disappearance of internal databases, including customer and vendor data. Judging from the experience of other similarly situated companies, it is possible that Sony could be exposed to significant monetary liability if such risks were to materialize, and it is also possible that such events could harm Sony's reputation and credibility. Considering the increasing social awareness concerning the importance of personal information and relevant legislation (Refer to Government Regulations in Item 4. *Information on the Company*), such risks are increasing particularly for businesses that handle a large amount of customer and consumer data. Although Sony continues to take precautions against such unforeseen risks, such as by undertaking efforts to educate operators and administrators who have access to databases about appropriate ways to protect such information, these measures may be insufficient, and Sony may be unable to avoid or prevent such events.

***Sony is subject to financial and reputational risks due to product quality and liability issues.***

Sony products, such as software (including software for mobile phone handsets) and electronic devices including semiconductors are becoming increasingly sophisticated and complicated as rapid advancements in technologies occur, and as demand increases for digital equipment. At the same time product quality and liability issues present greater risks. Such issues may occur not only in relation to Sony's own branded products but also in association with appliances and devices designed or manufactured for third parties. Sony's efforts to manage the rapid advancements in technologies and increased demand, as well as to control product quality, may not be successful, and if they are not, Sony may incur expenses in connection with, for example, product recalls, service and lawsuits, and Sony's brand image and reputation as a producer of high-quality products may suffer. An example of this includes the recall by Dell Inc. and Apple Computer Inc. of lithium-ion battery packs, containing battery cells originally manufactured by Sony, used in their notebook computers (refer to Performance by Product Category for Electronics within *Operating Results for the Fiscal Year Ended March 31, 2006* in Item 5. *Operating and Financial Review and Prospects*).

***Sony may be adversely affected by its employee benefit obligations.***

Sony recognizes an unfunded pension obligation (in an amount equal to (i) its Projected Benefit Obligation (PBO) less (ii) the fair value of plan assets and accrued pension and severance costs) as a pension cost in a systematic and gradual manner over employees' average remaining service periods as required under FAS No. 87, *Employers Accounting for Pensions*. Any decrease of pension asset value due to low returns from investments or increases in PBO due to a lower discount rate may increase unfunded pension obligations, resulting in an increase in pension expenses recorded as cost of sales or as a selling, general and administrative expense. Refer to Note 14 of Notes to Consolidated Financial Statements for more information regarding Sony's pension and severance plans. Also refer to Critical Accounting Policies in Item 5. *Operating and Financial Review and Prospects*.

Most pension assets and liabilities recognized on Sony's consolidated balance sheets relate to Japanese plans, which are subject to the Japanese Defined Benefit Corporate Pension Plan Act pursuant to which Sony is required to meet certain financial criteria including periodic actuarial revaluation and annual settlement of

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gain or loss of the plan. In the eventuality that the actuarial reserve required by law exceeds the fair value of pension assets, Sony may be required to make an additional contribution to the plan, which would reduce consolidated cash flow.

***Sony may be accused of infringing others' intellectual property rights.***

Sony's products incorporate a wide variety of technologies. Claims have been and could be asserted against Sony that such technology infringes intellectual property owned by others, and the outcome of any such claim would be uncertain.

***Sony is dependent upon certain intellectual property rights of others, and Sony may not be able to continue to obtain necessary licenses to employ technology covered by such rights.***

Many of Sony's products are designed to include intellectual property licensed from third parties. Based upon past experience and industry practice, Sony believes that it will be able to obtain or renew licenses relating to various intellectual properties useful in its business that it needs in the future; however, such licenses may not be available at all or on acceptable terms.

***Increased reliance on external suppliers may increase financial, reputational and other risks to Sony.***

With the increasing necessity of pursuing quick business development and high operating efficiency with limited managerial resources, Sony increasingly procures from third-party suppliers components (including LCD panels for televisions), and technologies (such as operating systems for PCs). In addition, it consigns to external suppliers extensive activities including procurement, manufacturing, logistics, sales and other services. Reliance on outside sources increases the chance that Sony will be unable to prevent products from incorporating defective or inferior third-party technology or components. Products with such defects can adversely affect Sony's consolidated sales and its reputation for quality products. This reliance on external suppliers may also expose Sony to the effects of suppliers insufficient compliance with applicable regulations or infringement of third-party intellectual property rights.

***Sony is subject to environmental and occupational health and safety regulations that can increase the costs of operations or limit its activities.***

Sony is subject to environmental and occupational health and safety regulations relating to matters such as reductions or prohibitions in the use of harmful substances, comprehensive compliance and risk management practices in manufacturing activities and products, decreases in the level of standby power of certain products, protection of natural resources and remediation as a result of certain manufacturing operations and the recycling of products, batteries and packaging materials. The European Parliament and the Council of the European Union have published directives on waste electrical and electronic equipment and on the restriction of the use of certain hazardous substances in electrical and electronic equipment. Similar regulations are being formulated in other parts of the world including China.

Since August 2005 these European directives have required electronics producers to bear the cost of collection, treatment, recovery and safe disposal of future products from end-users and beginning July 2006 require that new electrical and electronic equipment does not contain specified hazardous substances. Under the current situation where all individual member states have not yet adopted regulations based upon these directives, the compliance cost for Sony cannot precisely be estimated, but it could be substantial. In the event it is determined that Sony has not complied in a material way with certain environmental laws and regulations, Sony may incur remediation costs or sustain injury to its brand image. Sony's activities also may be limited if Sony is unable to comply with such regulations, which could adversely affect Sony's results.

***Sony is subject to the risks of operations in different countries.***

A substantial portion of Sony's activities are conducted outside Japan, including in developing and emerging markets. Sony operates its manufacturing subsidiaries in 20 countries and its sales subsidiaries in

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43 countries. Countries where Sony manufactures its principal products are Japan, Malaysia, China, the U.S., the U.K., Singapore, Spain and Mexico.

International operations bring challenges. Production in China and other Asian countries of electronics products increases the time necessary to supply products to Europe and the U.S., which can make it more difficult to meet changing customer demand and preferences. Concentration of the production of PC components in China and Taiwan could lead to production interruptions if a catastrophe or widespread contagion, similar to the spread of Severe Acute Respiratory Syndrome ( SARS ), occurs in the region. Further, Sony may encounter difficulty in planning and managing operations due to unfavorable political or economic factors, such as instability in the Middle East resulting from the Iraq War, cultural and religious conflicts, foreign exchange controls, or unexpected legal or regulatory changes such as import or export controls, nationalization of assets or restrictions on repatriation of returns from foreign investments.

***American Depository Shareholders have fewer rights than shareholders and may not be able to enforce judgments based on U.S. securities laws.***

The rights of shareholders under Japanese law to take actions, including voting their shares, receiving dividends and distributions, bringing derivative actions, examining Sony's accounting books and records and exercising appraisal rights are available only to shareholders of record. Because the depository, through its custodian agents, is the record holder of the shares underlying the American Depository Shares ( ADSs ), only the depository can exercise those rights in connection with the deposited shares. The depository will make efforts to vote the shares underlying ADSs in accordance with the instructions of ADS holders and will pay the dividends and distributions collected from Sony. However, ADS holders will not be able to bring a derivative action, examine Sony's accounting books and records, or exercise appraisal rights through the depository.

Sony Corporation is incorporated in Japan with limited liability. A substantial portion of the assets of Sony Corporation are located outside the U.S. As a result, it may be more difficult for investors to enforce against Sony Corporation judgments obtained in U.S. courts predicated upon the civil liability provisions of the Federal securities laws of the U.S. or judgments obtained in other courts outside Japan. There is doubt as to the enforceability in Japanese courts, in original actions or in actions for enforcement of judgments of U.S. courts, of civil liabilities predicated solely upon the Federal securities laws of the U.S.

**Item 4. Information on the Company**

**History and Development of the Company**

Sony Corporation, the ultimate parent company of Sony, was established in Japan in May 1946 as Tokyo Tsushin Kogyo Kabushiki Kaisha, a joint stock company (*Kabushiki Kaisha*) under the Japanese Commercial Code (*Shoho*). In January 1958, it changed its name to Sony Kabushiki Kaisha ( Sony Corporation in English).

In December 1958, Sony Corporation was listed on the Tokyo Stock Exchange (the TSE ). In June 1961, Sony Corporation issued American Depository Receipts ( ADRs ) in the U.S.

In March 1968, Sony Corporation established CBS/ Sony Records Inc. in Japan, currently Sony Music Entertainment (Japan) Inc. ( SMEJ ), as a 50:50 joint venture company between Sony Corporation and CBS Inc. in the U.S. In January 1988, SMEJ became a wholly-owned subsidiary of Sony Corporation. In November 1991, SMEJ was listed on the Second Section of the TSE.

In September 1970, Sony Corporation was listed on the New York Stock Exchange (the NYSE ).

In August 1979, Sony Corporation established Sony Prudential Life Insurance Co., Ltd. in Japan, currently Sony Life Insurance Co., Ltd. ( Sony Life ), as a 50:50 joint venture company between Sony Corporation and The Prudential Insurance Company of America. In March 1996, Sony Life became a wholly-owned subsidiary of Sony Corporation, and in April 2004, with the establishment of a financial holding company Sony Financial Holdings Inc. ( SFH ), Sony Life became a wholly-owned subsidiary of SFH.

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In July 1984, Sony Magnescale Inc., a subsidiary of Sony Corporation and currently Sony Precision Technology Inc., was listed on the Second Section of the TSE. In July 1987, Sony Chemicals Corporation, a subsidiary of Sony Corporation, was listed on the Second Section of the TSE.

In January 1988, Sony Corporation acquired CBS Records Inc., a music business division of CBS Inc. in the U.S. In January 1991, CBS Records Inc. changed its name to Sony Music Entertainment Inc. ( SMEI ). In November 1989, Sony Corporation acquired Columbia Pictures Entertainment, Inc. in the U.S. In August 1991, Columbia Pictures Entertainment, Inc. changed its name to Sony Pictures Entertainment Inc. ( SPE ).

In November 1993, Sony established Sony Computer Entertainment Inc. ( SCEI ) in Japan.

In January 2000, acquisition transactions by way of exchanges of stock were completed such that SMEJ, Sony Chemicals Corporation, and Sony Precision Technology Inc. became wholly-owned subsidiaries of Sony Corporation. In June 2001, Sony Corporation issued shares of subsidiary tracking stock in Japan, the economic value of which was intended to be linked to the economic value of Sony Communication Network Corporation ( SCN ). All shares of subsidiary tracking stock were terminated and converted to shares of Sony's common stock in December 2005. SCN was listed on the Mother's market of the TSE in December 2005. Sony Corporation continues to hold a majority of shares of SCN.

In October 2001, Sony Ericsson Mobile Communications, AB ( Sony Ericsson ), a 50:50 joint venture company between Sony Corporation and Telefonaktiebolaget LM Ericsson of Sweden, was established.

In October 2002, Aiwa Co., Ltd. ( Aiwa ) became a wholly-owned subsidiary of Sony Corporation. In December 2002, Aiwa was merged into Sony Corporation.

In June 2003, Sony Corporation adopted the Company with Committees system in line with the revised Japanese Commercial Code. (Refer to Board Practices in Item 6. *Directors, Senior Management and Employees.* )

In April 2004, Sony Corporation established SFH in Japan. Sony Life, Sony Assurance Inc., and Sony Bank became subsidiaries of SFH.

In April 2004, S-LCD Corporation, a joint venture between Sony Corporation and Samsung Electronics Co., Ltd. of Korea, was established in Korea.

In August 2004, Sony combined its worldwide recorded music business, excluding its recorded music business in Japan, with the worldwide recorded music business of Bertelsmann AG forming the 50:50 joint venture, SONY BMG MUSIC ENTERTAINMENT ( SONY BMG ).

In April 2005, a consortium led by Sony Corporation of America ( SCA ) and its equity partners, Providence Equity Partners, Texas Pacific Group, Comcast Corporation and DLJ Merchant Banking Partners, completed the acquisition of Metro-Goldwyn-Mayer Inc. ( MGM ).

Sony Corporation's registered office is located at 7-35, Kitashinagawa 6-chome, Shinagawa-ku, Tokyo 141-0001, Japan, telephone +81-3-5448-2111.

The agent in the U.S. for purposes of this Item 4 is Sony Corporation of America, 550 Madison Avenue, New York, NY 10022 (Attn: Office of the General Counsel).

**Principal Capital Investments**

In the fiscal years ended March 31, 2004, 2005 and 2006, Sony's capital expenditures (additions to fixed assets on the balance sheets) were 378.3 billion yen, 356.8 billion yen and 384.3 billion yen, respectively. Sony's capital expenditures are expected to be 460 billion yen during the fiscal year ending March 31, 2007. For a breakdown of principal capital expenditures and divestitures (including interests in other companies), refer to Item 5. *Operating and Financial Review and Prospects.* Sony invested approximately 140 billion yen in the semiconductor business during the fiscal year ended March 31, 2006. Sony plans to invest approximately 170 billion yen in the semiconductor business in the fiscal year ending March 31, 2007. To finance

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capital expenditures for the development and manufacturing of semiconductors such as Cell, a highly advanced processor that will be embedded in next-generation digital consumer electronics products, as well as capital expenditures related to other key devices, including display devices, Sony raised 250 billion yen through the issuance of Euro yen zero coupon convertible bonds in December 2003, as well as separate funds generated through self-financing. Refer to **Property, Plant and Equipment** below for a geographic distribution of these investments.

**Business Overview*****Important Changes during the Fiscal Year***

Effective April 1, 2005, Sony no longer breaks out its music business as a reportable segment as it no longer meets the materiality threshold. Accordingly, the results for Sony's music business are now included within All Other and the results for the fiscal years ended March 31, 2004 and March 31, 2005 have been reclassified to All Other for comparative purposes. Results for the fiscal year ended March 31, 2006 in All Other include the results of SMEI's music publishing business and SMEJ, excluding Sony's Japan-based disc manufacturing business which, effective April 1, 2005, has been reclassified to the Electronics segment. However, results for the previous fiscal year in All Other include the consolidated results for SMEI's recorded music business for the period through August 1, 2004, as well as the results for SMEI's music publishing business and SMEJ excluding Sony's Japan-based disc manufacturing business.

On April 8, 2005, a consortium led by SCA and its equity partners, Providence Equity Partners, Texas Pacific Group, Comcast Corporation and DLJ Merchant Banking Partners, completed the acquisition of MGM. Under the terms of the acquisition agreement, the aforementioned investor group acquired MGM for 12.00 U.S. dollars in cash per MGM share, for a total purchase price of approximately 5.0 billion U.S. dollars. In conjunction with the acquisition, SPE entered into agreements to co-finance and produce new motion pictures with MGM, and to distribute MGM's existing film and television content through SPE's global distribution channels. MGM continues to operate under the Metro-Goldwyn-Mayer name as a private company headquartered in Los Angeles. As part of the acquisition, SCA invested 257 million U.S. dollars in exchange for 20 percent of the total equity capital. However, based on the percentage of common stock owned, Sony records 45 percent of MGM Holdings, Inc.'s net income (loss) as equity in net income of affiliated companies.

In June 2006, MGM and SPE modified this arrangement with respect to the co-financing of motion pictures and further to allow MGM to bring its worldwide television distribution business in-house and to consolidate substantially all of its worldwide home entertainment distribution activities with another major studio.

In August 2004, Sony combined its recorded music business outside of Japan with the recorded music business of Bertelsmann AG forming SONY BMG, after approval from, among others, the European Commission competition authorities. On December 3, 2004, Impala, an international association consisting of 2500 independent recorded music companies applied for annulment of the decision to clear the merger. On July 13, 2006, the European Court of First Instance overruled the Commission's decision to allow the merger to go forward, requiring the Commission to re-examine the merger. While the Commission completes its reexamination, Sony continues to account for the results of Sony BMG under the equity method.

Commencing April 1, 2005, Sony partly realigned its product category configuration in the Electronics segment. Accordingly, results of the previous fiscal year have been reclassified. The primary changes are as follows;

| <b>Main Product</b>        | <b>Previous Product Category</b> | <b>New Product Category</b>    |
|----------------------------|----------------------------------|--------------------------------|
| Professional-use projector | Televisions                      | Information and Communications |

**Table of Contents****Products and Services**

The following table sets forth Sony's sales and operating revenue by operating segments. Figures in parentheses indicate percentage of sales and operating revenue.

|                             | <b>Fiscal Year Ended March 31</b> |         |             |         |             |         |
|-----------------------------|-----------------------------------|---------|-------------|---------|-------------|---------|
|                             | <b>2004</b>                       |         | <b>2005</b> |         | <b>2006</b> |         |
|                             | <b>(Yen in millions)</b>          |         |             |         |             |         |
| Electronics                 | 4,858,631                         | (64.8)  | 4,806,494   | (67.1)  | 4,763,555   | (63.7)  |
| Game                        | 753,732                           | (10.1)  | 702,524     | (9.8)   | 918,251     | (12.3)  |
| Pictures                    | 756,370                           | (10.1)  | 733,677     | (10.3)  | 745,859     | (10.0)  |
| Financial Services          | 565,752                           | (7.5)   | 537,715     | (7.5)   | 720,566     | (9.6)   |
| All Other                   | 561,906                           | (7.5)   | 379,206     | (5.3)   | 327,205     | (4.4)   |
| Sales and operating revenue | 7,496,391                         | (100.0) | 7,159,616   | (100.0) | 7,475,436   | (100.0) |

**Electronics**

The following table sets forth Sony's Electronics segment sales and operating revenue by product categories. Figures in parentheses indicate percentage of sales and operating revenue.

|                                | <b>Fiscal Year Ended March 31</b> |         |             |         |             |         |
|--------------------------------|-----------------------------------|---------|-------------|---------|-------------|---------|
|                                | <b>2004</b>                       |         | <b>2005</b> |         | <b>2006</b> |         |
|                                | <b>(Yen in millions)</b>          |         |             |         |             |         |
| Audio                          | 675,496                           | (13.9)  | 571,864     | (11.9)  | 536,187     | (11.3)  |
| Video                          | 949,320                           | (19.6)  | 1,036,328   | (21.5)  | 1,021,325   | (21.4)  |
| Televisions                    | 884,600                           | (18.2)  | 921,195     | (19.2)  | 927,769     | (19.5)  |
| Information and Communications | 878,855                           | (18.1)  | 816,150     | (17.0)  | 842,537     | (17.7)  |
| Semiconductors                 | 253,237                           | (5.2)   | 246,314     | (5.1)   | 240,771     | (5.0)   |
| Components                     | 623,799                           | (12.8)  | 619,477     | (12.9)  | 656,768     | (13.8)  |
| Other                          | 593,324                           | (12.2)  | 595,166     | (12.4)  | 538,198     | (11.3)  |
| Electronics Total              | 4,858,631                         | (100.0) | 4,806,494   | (100.0) | 4,763,555   | (100.0) |

**Note:**

Sony manages the Electronics segment as a single operating segment. However, Sony believes that the product category information in the Electronics segment is useful to investors in understanding the sales contributions of the products in this business segment.

In the Electronics segment, Sony is engaged in the development, design, manufacture, and sale of various kinds of electronic equipment, instruments, and devices for consumer and professional markets. Sony's principal manufacturing facilities are located in Japan, Malaysia, China, the U.S., Singapore, Spain and Mexico, and its products are marketed

by sales subsidiaries and unaffiliated local distributors and sold through direct sales via the Internet throughout the world. In addition to internationalizing its production operations, Sony has been promoting the transfer of research and development activities and management functions overseas to bring its overseas operations into closer proximity to local communities and markets.



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*Audio:*

Audio includes home audio, portable audio, car audio and car navigation systems.

*Video:*

Video includes video cameras, digital cameras, video decks, and DVD-Video players/recorders.

*Televisions:*

Televisions includes televisions incorporating cathode ray tubes ( CRTs ), rear-projection televisions, liquid crystal displays ( LCD ) televisions, and computer displays.

*Information and Communications:*

Information and Communications includes PCs, printer systems, broadcast- and professional-use audio, video and monitors and other professional-use equipment.

*Semiconductors:*

Semiconductors includes LCDs, charge coupled devices ( CCDs ) and other semiconductors.

*Components:*

Components includes optical pickups, batteries, audio/video/data recording media, and data recording systems.

*Other:*

Other includes sales to outside customers, such as sales of mobile phone handsets to Sony Ericsson by Sony EMCS Corporation ( Sony EMCS ), an Integrated Circuit ( IC ) card business, CD and DVD disc manufacturing and physical distribution businesses, and products and services that are not included in the above categories.

**Game**

Sony Computer Entertainment Inc. ( SCEI ) develops, produces, markets and distributes PlayStation®PS one™, PlayStation®2 ( PS2 ) and PSP(PlayStation®Portable) ( PSP ) hardware and related software in Japan, and is developing the PLAYSTATION®3 ( PS3 ) computer entertainment system scheduled to be launched in November 2006. Sony Computer Entertainment America Inc. ( SCEA ) and Sony Computer Entertainment Europe Ltd. ( SCEE ) market and distribute PlayStation, PS one, PS2 and PSP hardware, and develop, produce, market and distribute related software in the U.S. and Europe. SCEI, SCEA and SCEE enter into licenses with third-party software developers.

**Pictures**

Global operations in the Pictures segment encompass motion picture production, acquisition and distribution; television production, acquisition and distribution; home entertainment production, acquisition and distribution; television broadcasting; digital content creation and distribution; and operation of studio facilities.

SPE's motion picture arm, the Columbia TriStar Motion Picture Group, includes SPE's principal motion picture production organizations, Columbia Pictures, TriStar Pictures, Screen Gems and Sony Pictures Classics, as well as Sony Pictures Home Entertainment, Sony Pictures Releasing and Sony Pictures Releasing International. SPE also holds a 7.5 percent equity interest in Revolution Studios and has the rights to market and distribute its motion picture product throughout most of the world. Upon delivery of Revolution Studios' films, SPE advances a portion of the production cost and then incurs distribution and marketing costs in those markets where SPE distributes. SPE retains a fee for its distribution services in addition to its participation in

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Revolution Studios' profits and losses as a result of its equity ownership stake. In conjunction with the acquisition of MGM in April 2005 by SCA and its equity partners, SPE entered into agreements to co-finance and produce new motion pictures with MGM and to distribute MGM's existing film and television content through SPE's global distribution channels.

In June 2006, MGM and SPE modified this arrangement with respect to the co-financing of motion pictures and further to allow MGM to bring its worldwide television distribution business in-house and to consolidate substantially all of its worldwide home entertainment distribution activities with another major studio.

SPE's Television Group is primarily comprised of Sony Pictures Television and Sony Pictures Television International with various broadcast channel investments. SPE develops and produces network television series, first-run syndication programming, made-for-cable programming, daytime serials, syndicated games shows, animated series, made for television movies, miniseries and other television programming and distributes such programs to the networks, syndication and cable markets.

Sony Pictures Digital operates SPE's digital content creation and distribution businesses including Sony Online Entertainment, as well as operating Sony Pictures Imageworks and Sony Pictures Animation.

SPE manages a studio facility, Sony Pictures Studios, which includes post production facilities, at SPE's world headquarters in Culver City, California. A second studio facility, The Culver Studios, which was owned and operated by SPE, was sold by SPE in April 2004. SPE initially leased back a portion of this facility for a two-year period and subsequently extended the lease for an additional one-year period expiring April 20, 2007.

**Financial Services**

In the Financial Services segment, on April 1, 2004 Sony established a wholly-owned subsidiary, SFH, a holding company for Sony Life, Sony Assurance Inc. ( Sony Assurance ) and Sony Bank Inc. ( Sony Bank ), with the aim of integrating various financial services including savings and loans, and offering individual customers high value-added products and high-quality services.

Sony conducts insurance operations primarily through Sony Life, a Japanese life insurance company, and Sony Assurance, a Japanese non-life insurance company, both wholly-owned by SFH. Sony also operates an Internet-based banking business in Japan through Sony Bank, which is an 88 percent owned subsidiary of SFH. Aside from SFH, Sony is also engaged in a leasing and credit financing business in Japan through Sony Finance International Inc. ( Sony Finance ), a wholly-owned subsidiary of Sony Corporation.

**All Other**

All Other is mainly comprised of SMEJ, a Japanese domestic recorded music business that produces recorded music and music videos through contracts with many artists in all musical genres; SMEI's music publishing business, which owns and acquires rights to musical compositions, exploits and markets these compositions and receives royalties or fees for their use; Sony Communication Network Corporation ( SCN ), an Internet-related service business subsidiary operating mainly in Japan; an in-house facilities management business in Japan; and an advertising agency business in Japan.

**Table of Contents*****Sales and Distribution***

The following table shows Sony's sales in each of its major markets for the periods indicated. Figures in parentheses indicate the percentage of worldwide sales and operating revenue for which the particular market accounts.

|                             | <b>Fiscal Year Ended March 31</b> |         |             |         |             |         |
|-----------------------------|-----------------------------------|---------|-------------|---------|-------------|---------|
|                             | <b>2004</b>                       |         | <b>2005</b> |         | <b>2006</b> |         |
|                             | <b>(Yen in millions)</b>          |         |             |         |             |         |
| Japan                       | 2,220,747                         | (29.6)  | 2,100,793   | (29.3)  | 2,168,723   | (29.0)  |
| United States               | 2,121,110                         | (28.3)  | 1,977,310   | (27.6)  | 1,957,644   | (26.2)  |
| Europe                      | 1,765,053                         | (23.6)  | 1,612,536   | (22.6)  | 1,715,704   | (23.0)  |
| Other Areas                 | 1,389,481                         | (18.5)  | 1,468,977   | (20.5)  | 1,633,365   | (21.8)  |
| Sales and operating revenue | 7,496,391                         | (100.0) | 7,159,616   | (100.0) | 7,475,436   | (100.0) |

**Electronics**

Sony's electronics products and services are marketed throughout the world under the trademark Sony, which has been registered in 204 countries and territories.

In most cases, sales of Sony's electronics products are made to sales subsidiaries of Sony Corporation located in or responsible for sales in the countries and territories where Sony's products and services are marketed. These subsidiaries then sell those products to local distributors and dealers. In some regions, sales of certain products and services are made directly to local distributors by Sony Corporation.

Sales in the Electronics segment are particularly seasonal and also vary significantly with the timing of new product introductions and economic conditions of each country. Sales for the third quarter ending December 31 of each fiscal year are generally higher than other quarters of the same fiscal year due to demand in the year-end holiday season.

***Japan:***

Sony Marketing (Japan) Inc. markets consumer electronics products through retailers and also markets professional electronics products and services. For electronic components, Sony sells products directly to wholesalers and manufacturers.

***United States:***

Sony markets its electronics products and services through Sony Electronics Inc. and other wholly owned subsidiaries in the U.S.

***Europe:***

In Europe, Sony's consumer electronics products and services are marketed through sales subsidiaries including Sony United Kingdom Limited, Sony Deutschland G.m.b.H., and Sony France S.A. Sales of electronics products for professional use, electronic components, and services are made through several divisions, differentiated by product, covering all of Europe.

***Other Areas:***

In overseas areas other than the U.S. and Europe, Sony's electronics products and services are marketed through sales subsidiaries including Sony Corporation of Hong Kong Limited, Sony Gulf FZE in the United Arab Emirates, Sony Electrónicos de México, S.A. de C.V., Sony of Canada Ltd., and Sony Australia Limited.

**Table of Contents****Game**

SCEI, SCEA, SCEE and subsidiaries in Asia market and distribute PlayStation, PS one, PS2, and PSP entertainment hardware and related software.

Sales in the Game segment are dependent on the timing of the introduction of attractive software and a significant portion of overall demand is weighted towards the year-end holiday season.

**Pictures**

SPE, with global operations in 72 countries, generally retains all rights relating to the worldwide distribution of its internally produced motion pictures, including rights for theatrical exhibition, videocassette, DVD and Blu-ray distribution, pay and free television exhibition and other markets. SPE also acquires distribution rights to motion pictures produced by other companies, and jointly produces films with other studios or production companies. These rights may be limited to particular geographic regions, specific forms of media or period of time. SPE uses its own distribution service business, Sony Pictures Releasing, for the U.S. theatrical release of its films and for the theatrical release of films acquired from and produced by others.

Outside the U.S., SPE generally distributes and markets its films through one of its Sony Pictures Releasing International subsidiaries. In certain countries, however, SPE has joint distribution arrangements with other studios or arrangements with independent local distributors.

SPE's theatrical release strategy focuses on offering a diverse slate of films with a mix of genres, talent and budgets. For the fiscal year ending March 31, 2007, 48 films are currently slated for release by SPE, including 16 films under the Columbia banner, six films under the Screen Gems or TriStar banner, 19 Sony Pictures Classics releases, five Revolution Studios releases, and two films co-financed with MGM. SPE has a motion picture library of more than 3,500 feature films, including 12 with Best Picture Academy Awards®. Currently, SPE is converting its library (including acquired product) to a digital format and approximately 2,000 titles have been converted. In addition, SPE and four other motion picture studios are equal investors in Movielink LLC, an online movie download service offering feature films on an on-demand basis.

The worldwide home entertainment distribution of SPE's motion pictures and television programming (and programming acquired or licensed from others) is handled through Sony Pictures Home Entertainment, except in certain countries where SPE has joint distribution arrangements with other studios or arrangements with independent local distributors. Product is distributed on both videocassette and DVD formats.

SPE produces local language programming in key markets around the world, some of which are co-produced with local partners and sells SPE-owned formats in approximately 25 countries. This programming, along with SPE's library of television programming and motion pictures, is licensed to affiliated and independent stations and broadcasters in the U.S., and to affiliated and independent international television stations and other broadcasters throughout the world. In the U.S., SPE owns and operates the cable channel GSN (formerly Game Show Network) jointly with Liberty Media Corporation. SPE also has investments in more than 40 international networks, which are available in more than 100 countries worldwide.

**Financial Services**

Sony Life conducts a life insurance business primarily in Japan, utilizing Sony Life's highly trained Lifeplanner® life insurance professionals and independent agencies to serve individual customers. Sony Life provides tailor-made life insurance products that are optimized for each customer. In order to provide a sense of reassurance to its diversified customer base, Sony Life provides an extensive lineup of products and services supplemented with consulting and after-sales follow-up. As of March 31, 2006, Sony Life employed 3,826 Lifeplanner life insurance professionals. Sony Life maintains an extensive service network including 83 Lifeplanner branch offices, 26 regional sales offices, and 2,264 independent agencies in Japan. In addition, Sony has aimed to apply Sony Life's insurance expertise in countries other than Japan, operating Sony Life Insurance (Philippines) Corporation in the Philippines since November 1999.

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Sony Assurance has conducted a non-life insurance business in Japan since October 1999 utilizing a direct insurance provider business model. As a direct insurance provider, Sony Assurance communicates directly with customers over the telephone or via the Internet. These one-to-one relationships help to provide a clear understanding of customers' opinions and needs, which Sony Assurance can reflect in its product and service offerings. Sony Assurance principally sells automobile insurance, as well as medical and cancer insurance.

Sony Bank has conducted banking operations in Japan since June 2001 and, as a general rule, provides its services via the Internet 24 hours a day, 365 days a year. Sony Bank has developed new products and services in a proactive and flexible manner based on its consistent policy of providing financial services, primarily for asset management, to independent individual customers. Sony Bank's main product and service lineups now include yen deposits, foreign currency deposits in eight currencies, investment trusts, and mortgage loans. By using the MONEYKit tool, Sony Bank's transaction channel, account holders can invest and manage assets according to their life plans over the Internet.

Sony Finance conducts a leasing business for corporations, and a consumer financing business including My Sony Card, a credit card for individual customers, through Sony's electronic retailers and other affiliated partners.

**All Other**

SMEJ produces, markets, and distributes CDs, MDs, DVDs, and pre-recorded audio and video software. SMEJ conducts business in Japan under Sony Records, Epic Records, Ki/oon Records, SMEJ Associated Records, Records, and other labels.

SMEI owns and acquires rights to musical compositions, exploits and markets these compositions, receives royalties or fees for their use and conducts its music publishing business in countries other than Japan primarily under the Sony/ ATV Music Publishing name.

SCN provides Internet broadband network services to subscribers as well as creating and distributing content through its portal service to various platforms including PCs, mobile phones and other home electronics devices including TVs and game consoles. Both fee-based and charge-free services are provided via these content distribution platforms.

**Sources of Supply**

Sony pursues procurement of raw materials, parts and components to be used in the production of its products on a global basis on the most favorable terms that it can achieve. These items are purchased from various suppliers around the world. Generally, Sony maintains multiple suppliers for most significant categories of parts and components.

However, when raw materials, parts and components become scarce, the cost of production rises. For example, the recent sharp rise in the market price of copper has the potential to proportionately affect the cost of parts that utilize copper such as printed circuit boards and power cables. In addition, there is growing concern that the price of resin may rise resulting in an increase to the cost of plastic parts.

**After-Sales Service**

In the Electronics and Game segments, Sony provides repair and servicing functions in the areas where its products are sold. Sony provides these services through its own service centers, factories, authorized independent service centers, authorized servicing dealers and subsidiaries.

In line with the industry practices of the electronics and game businesses, almost all of Sony's products sold in Japan carry a warranty, generally for a period of one year from the date of purchase, covering repairs, free of charge, in the case of a malfunction in the course of ordinary use of the product. In the case of broadcast- and professional-use products, Sony maintains support contracts with customers in addition to

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warranties. Overseas warranties are generally provided for various periods of time depending on the product and the area in which it is marketed.

To further ensure customer satisfaction, Sony maintains customer information centers in its principal markets.

***Patents and Licenses***

Sony has a number of Japanese and foreign patents relating to its products. Sony is licensed to use a number of patents owned by others, covering a wide range of products. Certain licenses are important to Sony's business, such as that for optical disc related products. Sony products that employ DVD-Video player functions, including PS2 hardware, are substantially dependent upon certain patents licensed by MPEG LA LLC, Dolby Laboratories Licensing Corporation and Nissim Corp. These patents relate to technologies essential to DVD specification. Sony considers its overall license position beneficial to its operations. While Sony believes that its various proprietary intellectual property rights are important to its success, it believes that neither its business as a whole nor any business segment is materially dependent on any particular patent or license, or any particular group of patents or licenses, except as set forth above.

***Competition***

In each of its principal product lines, Sony encounters intense competition throughout the world. Sony believes, however, that in the aggregate it competes successfully and has a major position in all of the principal product lines in which it is engaged, although the strength of its position varies with products and markets. Refer to Risk Factors in Item 3. *Key Information*.

In the Electronics segment, Sony believes that its product planning and product design expertise, the high quality of its products, its record of innovative product introductions and product improvements, its price competitiveness derived from reductions in manufacturing and indirect costs, and its extensive marketing and servicing efforts are important factors in maintaining its competitive position.

The Game segment is in a historically volatile and highly dynamic industry and SCEI's competitive position is affected by changing technology and product introductions, limited platform life cycles, popularity of software titles, seasonality, consumer spending and other economic trends. To be successful in the game industry, it is important to win customer acceptance of SCEI's format.

In the Pictures segment, SPE faces intense competition from other major motion picture studios and, to a lesser extent, from independent production companies. SPE must compete to obtain story rights and talent, including writers, actors, directors and producers, which are essential to the success of SPE's products. SPE also competes to attract the attention of audiences worldwide and to obtain exhibition and distribution outlets and optimal release dates for its products. Competition in television production, distribution, and syndication is also intense because available broadcast time is limited and the audience is increasingly fragmented among broadcast networks, cable, and other independent television stations both in the U.S. and internationally. Furthermore, broadcast networks are increasingly producing their own shows internally. This competitive environment has resulted in fewer opportunities to produce shows for networks and a shorter lifespan for ordered shows that do not immediately achieve favorable ratings.

In the Financial Services segment, it is critical for Sony Life, Sony Assurance and Sony Bank to maintain customer confidence and satisfaction. To be credible and competitive in the financial services market, it is important to maintain a strong and healthy financial foundation for the business as well as to meet diversifying customer needs. Sony Life has maintained a high solvency margin ratio, based on a Japanese domestic criteria that stipulates the maintenance of a certain level of solvency margin ratio in order for the business to be evaluated as financially sound, and differentiates itself from competitors through its unique needs-based consulting sales approach from its Lifeplanner sales force, Sony Life's team of highly trained life insurance professionals. Sony Assurance, through direct communications over the telephone or via the Internet, endeavors to provide products and services that customers recognize as clearly distinctive from other companies' offerings and has maintained a leading position in the direct-type of non-insurance business in

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Japan. Sony Assurance also has maintained a high solvency margin ratio based on the aforementioned Japanese domestic criteria. Sony Bank has strengthened its financial base and has maintained an adequate capital adequacy ratio based on Japanese domestic criteria concerning this ratio. By taking advantage of the special characteristics of the Internet, Sony Bank, as an Internet bank for independent individual customers' asset management, offers a variety of unique products and services. Sony Finance faces competitive pressure to achieve a leading position in the new arena of secure payment systems on the Internet by utilizing new technology.

Within All Other, success at SMEJ is dependent to a large extent upon the artistic and creative abilities of employees and outside talent and is subject to the vagaries of public taste. SMEJ's future competitive position depends on its continuing ability to attract and develop artists who can achieve a high degree of public acceptance. SCN faces competition in Japan from many existing large companies, as well as from new entrants to the market.

Telecommunication companies that possess a large Internet-ready infrastructure and other entrants that compete solely on the basis of price have created a market in which competitive price reductions are the norm. Rapid technological advancement has created many new opportunities but it has also increased the rate at which new and more efficient services must be brought to market to earn customer approval. Customer price elasticity is high, and users are able to change Internet service providers with increasing ease. The penetration of mobile Internet services provided by telecommunications companies may also provide a substitute to the home-centric Internet service provided by SCN.

***Government Regulations***

Sony's business activities are subject to various governmental regulations in countries in which it operates, including regulations relating to business/investment approvals, import and export regulations including customs and export control, antitrust, intellectual property, consumer and business taxation, exchange controls, personal information protection, and environmental and recycling requirements.

In Japan, insurance and banking businesses are subject to approvals and oversight from the Financial Services Agency. In addition, telecommunication businesses are subject to approvals from the Ministry of Internal Affairs and Communications.

Sony is also subject to environmental and occupational health and safety regulations in the jurisdictions in which it operates, particularly those in which it has manufacturing, research, or similar operations in its Electronics and Game segments. Refer to Risk Factors in Item 3. *Key Information*.

**Table of Contents****Organizational Structure**

The following table sets forth the significant subsidiaries owned, directly or indirectly, by Sony Corporation.

| <b>Name of company</b>                   | <b>Country of incorporation</b> | <b>(As of March 31, 2006)<br/>Percentage owned</b> |
|--|---------------------------------|--|
| Sony EMCS Corporation                    | Japan                           | 100.0  |
| Sony Semiconductor Kyushu Corporation    | Japan                           | 100.0  |
| Sony Marketing (Japan) Inc.              | Japan                           | 100.0  |
| Sony Computer Entertainment Inc.         | Japan                           | 100.0  |
| Sony Financial Holdings, Inc.            | Japan                           | 100.0  |
| Sony Life Insurance Co., Ltd.            | Japan                           | 100.0  |
| Sony Music Entertainment (Japan) Inc.    | Japan                           | 100.0  |
| Sony Americas Holding Inc.               | U.S.A.                          | 100.0  |
| Sony Corporation of America              | U.S.A.                          | 100.0  |
| Sony Electronics Inc.                    | U.S.A.                          | 100.0  |
| Sony DADC US Inc.                        | U.S.A.                          | 100.0  |
| Sony Computer Entertainment America Inc. | U.S.A.                          | 100.0  |
| Sony Pictures Entertainment Inc.         | U.S.A.                          | 100.0  |
| Sony Europe Holding B.V.                 | Netherlands                     | 100.0  |
| Sony Europe G.m.b.H.                     | Germany                         | 100.0  |
| Sony United Kingdom Ltd.                 | U.K.                            | 100.0  |
| Sony Computer Entertainment Europe Ltd.  | U.K.                            | 100.0  |
| Sony Global Treasury Services Plc        | U.K.                            | 100.0  |
| Sony Holding (Asia) B.V.                 | Netherlands                     | 100.0  |
| Sony Electronics Asia Pacific Pte. Ltd.  | Singapore                       | 100.0  |

**Property, Plant and Equipment**

Sony has a number of offices, plants and warehouses throughout the world. Most of the buildings and land in and on which they are located are owned by Sony, free from significant encumbrances.



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The following table sets forth information as of March 31, 2006 with respect to plants for the manufacturing of products for the Electronics segment and for the Game segment with floor space of more than 500,000 square feet:

| Location  | Approximate<br>floor space<br><br>(square feet) | Principal products manufactured                                |
|---|---|--|
| <b>In Japan:</b>  |   |  |
| Nagasaki<br>(Sony Semiconductor Kyushu Corporation<br>Nagasaki TEC)           | 2,232,000                                       | Semiconductors   |
| Kokubu, Kagoshima<br>(Sony Semiconductor Kyushu Corporation<br>Kagoshima TEC) | 1,132,000                                       | Semiconductors   |
| Kumamoto<br>(Sony Semiconductor Kyushu Corporation<br>Kumamoto TEC)           | 980,000   | Semiconductors   |
| Kohda, Aichi<br>(Sony EMCS Corporation Kohda TEC)                             | 957,000   | Video cameras, digital cameras,<br>Memory Sticks, and printers |
| Inazawa, Aichi<br>(Sony EMCS Corporation Inazawa TEC)                         | 862,000   | LCD televisions  |
| Kanuma, Tochigi<br>(Sony Chemicals Corporation)                               | 843,000   | Magnetic tapes, adhesives, and<br>electronic components        |
| Ichinomiya, Aichi<br>(Sony EMCS Corporation Ichinomiya TEC)                   | 833,000   | Rear projection televisions, and digital<br>cameras            |
| Tochigi, Tochigi<br>(Sony Energy Devices Corporation)                         | 609,000   | Magnetic and optical storage media<br>and batteries            |
| Kisarazu, Chiba<br>(Sony EMCS Corporation Kisarazu TEC)                       | 601,000   | DVD Recorders and PCs  |
| Koriyama, Fukushima<br>(Sony Energy Devices Corporation)                      | 581,000   | Batteries  |
| Kosai, Shizuoka<br>(Sony EMCS Corporation Kosai TEC)                          | 562,000   | Broadcast- and professional-use video<br>equipment             |
| Minokamo, Gifu<br>(Sony EMCS Corporation Minokamo TEC)                        | 542,000   | Video cameras, digital cameras,<br>mobile phones, and modules  |



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| <b>Location</b>   | <b>Approximate<br/>floor space<br/><br/>(square feet)</b> | <b>Principal products manufactured</b>  |
|---|---|---|
| <b>Overseas:</b>  |   |   |
| Pittsburgh, Pennsylvania, U.S.A.<br>(Sony Electronics Inc.)   | 2,820,000   | Rear projection televisions   |
| San Diego, California, U.S.A.<br>(Sony Electronics Inc.)  | 1,249,000   | CRTs  |
| Wuxi, China<br>(Sony Electronics (Wuxi) Co., Ltd., Sony Digital<br>Products (Wuxi) Co., Ltd. and Sony (China) Ltd.) | 1,160,000   | Batteries, televisions, PCs, and digital<br>cameras   |
| Penang, Malaysia<br>(Sony EMCS (Malaysia) Sdn. Bhd. PG TEC)   | 988,000   | Audio equipment and data storage<br>systems   |
| Huizhou, China<br>(Sony Precision Devices (Huizhou) Co., Ltd.)  | 985,000   | Optical pickups and DVD players   |
| Tijuana, Mexico<br>(Sony de Tijuana Este, S.A. de C.V.)   | 935,000   | LCD televisions, rear projection<br>televisions, TV tuners, computer<br>displays, and audio equipment |
| Dothan, Alabama, U.S.A.<br>(Sony Electronics Inc.)  | 809,000   | Magnetic tape products and polarized<br>film for LCD  |
| Bangi, Malaysia<br>(Sony EMCS (Malaysia) Sdn. Bhd. KL TEC)  | 797,000   | CRT televisions, rear projection<br>televisions, TV tuners, DVD players,<br>and VTRs                  |
| Jurong, Singapore<br>(Sony Display Device (Singapore))  | 786,000   | CRTs  |
| Pencoed, Wales, U.K.<br>(Sony Manufacturing Company U.K.)   | 707,000   | Broadcast cameras and<br>professional-use displays  |
| Terre Haute, Indiana, U.S.A.<br>(Sony Music Entertainment Inc.)   | 665,000   | CDs, CD-ROMs, DVDs, and<br>DVD-ROMs   |
| Nuevo Laredo, Mexico<br>(Sony Electronics Inc.)   | 608,000   | Magnetic storage media and batteries  |
| Pitman, New Jersey, U.S.A.<br>(Sony Music Entertainment Inc.)   | 568,000   | CDs, CD-ROMs, DVDs, and<br>DVD-ROMs   |

|  |         |   |
|--|---------|---|
| Viladecavallas, Spain<br>(Sony Espana, S.A.) | 566,000 | LCD televisions, TV components,<br>projectors, and flat panel televisions |
|--|---------|---|

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Sony plans to increase its semiconductor manufacturing capacity at Sony Semiconductor Kyushu Corporation. Sony plans to invest 170.0 billion yen in semiconductor fabrication facilities and equipment during the fiscal year ending March 31, 2007. This investment includes investment in the production capacity for chips used for PS3, LCD televisions, LCD rear projection televisions, and mobile products.

In addition to the facilities above, Sony has a number of other plants for electronic products throughout the world. Sony owns research and development facilities and employee housing and recreation facilities, as well as Sony Corporation's headquarters buildings in Tokyo, Japan, where administrative functions and product development activities are carried out. SCEI leases its corporate headquarters buildings located in Tokyo, where administrative functions, product development, and software development are carried out. SCEA and SCEE lease their offices in the U.S. and Europe, respectively.

Most of SMEJ's offices, including leased premises, are located in Tokyo, Japan.

SPE's corporate offices and motion picture and television production facilities are headquartered in Culver City, California, where it owns and operates a studio facility, Sony Pictures Studios. A second studio facility, The Culver Studios, which was owned and operated by SPE was sold by SPE in April 2004. SPE initially leased back a portion of this facility for a two-year period and subsequently extended the lease for an additional one-year period expiring April 20, 2007. SPE also leases office space and motion picture and television support facilities from affiliates of Sony Corporation and other third parties in various worldwide locations. SPE's film and videotape storage operations are located in various leased locations in the U.S. and Europe.

In December 2001, SCA entered into a lease with a Variable Interest Entity, which is consolidated by Sony, for its corporate headquarters. Sony has the option to purchase the building at any time during the lease term which expires in December 2008. The aggregate floor space of this building is approximately 723,000 square feet.

**Item 5. Operating and Financial Review and Prospects****OPERATING RESULTS*****Operating Results for the Fiscal Year Ended March 31, 2006 compared with the Fiscal Year Ended March 31, 2005*****Overview**

After translation of Sony's financial results into yen (the currency in which Sony's financial statements are prepared), in accordance with Generally Accepted Accounting Principles in the U.S. ( U.S. GAAP ), Sony's sales and operating revenue ( sales ) for the fiscal year ended March 31, 2006 increased 4.4 percent compared with the previous fiscal year. On a local currency basis (regarding references to results of operations expressed on a local currency basis, refer to *Foreign Exchange Fluctuations and Risk Hedging* below), sales for the fiscal year increased slightly. The 4.4 percent increase is mainly due to an increase in revenues within the Financial Services segment, as a result of an improvement in gains and losses on investments at Sony Life Insurance Co., Ltd. ( Sony Life ) due to the favorable Japanese domestic equity market conditions, and increased sales within the Game segment, as the result of the contribution from PSP™ (PlayStation® Portable) ( PSP ). In the Electronics segment, although sales benefited from the depreciation of the yen and there was an increase in sales of liquid crystal display ( LCD ) televisions, sales to outside customers decreased 0.9 percent compared with the previous fiscal year. There was a decline in sales of CRT televisions, due to a continued shift in demand towards flat panel televisions, and in plasma televisions, where new product development has been terminated.

Operating income increased 67.9 percent compared with the previous fiscal year. On a local currency basis, operating income increased approximately 23 percent compared with the previous fiscal year. Operating income includes a one-time net gain of 73.5 billion yen, which resulted from the transfer to the Japanese Government of the substitutional portion of Sony's Employee Pension Fund. Of this, a gain of 64.5 billion yen was recorded within the Electronics segment. In the Financial Services segment, operating income increased

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due to an improvement in gains and losses on investments at Sony Life resulting from the above-mentioned favorable Japanese domestic equity market conditions. In the Electronics segment, although restructuring charges increased compared with the previous fiscal year, the amount of operating loss decreased as a result of a net gain resulting from the transfer to the Japanese Government of the substitutional portion of Sony's Employee Pension Fund mentioned above and favorable exchange rates. Operating income within the Game segment declined primarily as a result of an increase in research and development costs associated mainly with PLAYSTATION®3 ( PS3 ). In the Pictures segment, operating income also declined due to lower worldwide theatrical and home entertainment revenues on feature films.

**Restructuring**

In the fiscal year ended March 31, 2006, Sony recorded restructuring charges of 138.7 billion yen, an increase from the 90.0 billion yen recorded in the previous fiscal year. The primary restructuring activities were in the Electronics segment and All Other.

Of the total 138.7 billion yen, Sony recorded 48.3 billion yen in personnel-related costs. This expense was incurred because 5,700 people, mainly in Japan, the U.S. and Western Europe, left Sony primarily through early retirement programs.

For more detailed information about restructuring, please refer to Note 17 of Notes to the Consolidated Financial Statements.

***Electronics***

Restructuring charges in the Electronics segment for the fiscal year ended March 31, 2006 were 125.8 billion yen, compared to 83.2 billion yen in the previous fiscal year.

Due to the worldwide market shrinkage and demand shift from CRT televisions to plasma and LCD panel televisions, Sony has been implementing a worldwide plan to rationalize CRT and CRT television production facilities and has been downsizing its business over several years. In the fiscal year ended March 31, 2006, as part of this restructuring program, Sony recorded a non-cash impairment charge of 25.5 billion yen for CRT TV display manufacturing facilities located in the U.S. The impairment charge was calculated as the difference between the carrying value of the asset group and the present value of estimated future cash flows. The charge was recorded in loss on sale, disposal or impairment of assets, net in the consolidated statements of income.

In addition to the above restructuring efforts, Sony undertook several headcount reduction programs to further reduce operating costs in the Electronics segment. As a result of these programs, Sony recorded restructuring charges of 45.1 billion yen for the fiscal year ended March 31, 2006, and these charges were included 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. The remaining liability balance as of March 31, 2006 was 19.4 billion yen and will be paid through the fiscal year ending March 31, 2007. Sony will continue seeking the appropriate headcount level to optimize the workforce in the Electronics segment.

***All Other***

Restructuring charges within All Other for the fiscal year ended March 31, 2006 were 10.4 billion yen, compared to 5.3 billion yen recorded in the previous fiscal year. The main component of the restructuring charges recorded during the fiscal year ended March 31, 2006 was an 8.5 billion yen asset impairment write-down associated with the sale of the Metreon, a U.S. entertainment complex.

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|  | <b>Fiscal Year Ended<br/>March 31</b> |             | <b>Percent<br/>change</b> |
|--|---------------------------------------|-------------|---------------------------|
|  | <b>2005</b>                           | <b>2006</b> |                           |
|  | <b>(Yen in billions)</b>              |             |                           |
| Sales and operating revenue                  | 7,159.6                               | 7,475.4     | +4.4%                     |
| Operating income                             | 113.9                                 | 191.3       | +67.9                     |
| Income before income taxes                   | 157.2                                 | 286.3       | +82.1                     |
| Equity in net income of affiliated companies | 29.0                                  | 13.2        | -54.6                     |
| Net income                                   | 163.8                                 | 123.6       | -24.5                     |

**Sales**

Sales for the fiscal year ended March 31, 2006 increased by 315.8 billion yen, or 4.4 percent, to 7,475.4 billion yen compared with the previous fiscal year. A further breakdown of sales figures is presented under *Operating Performance by Business Segment* below.

Sales in this analysis of the ratio of selling, general and administrative expenses to sales refers only to the net sales and other operating revenue portions of consolidated sales and operating revenue, and excludes Financial service revenue. This is because Financial service expenses are recorded separately from cost of sales and selling, general and administrative expenses. Furthermore, in the analysis of cost of sales, including research and development costs, to sales, only net sales are used. This is because cost of sales is an expense associated only with net sales. The calculations of all ratios below that pertain to business segments include intersegment transactions.

**Cost of Sales and Selling, General and Administrative Expenses**

Cost of sales for the fiscal year ended March 31, 2006 increased by 151.3 billion yen, or 3.0 percent, to 5,151.4 billion yen compared with the previous fiscal year, and increased from 76.2 percent to 77.0 percent as a percentage of sales. Year on year, the cost of sales ratio increased from 81.8 percent to 81.9 percent in the Electronics segment, increased from 73.0 percent to 80.4 percent in the Game segment, and increased from 58.7 percent to 60.2 percent in the Pictures segment.

In the Electronics segment, there was a deterioration in the cost of sales ratio for several products, in particular image sensors and CRT televisions. In the Game segment, there was an increase in the cost of sales ratio as a result of research and development costs associated with PS3. In the Pictures segment, the cost of sales ratio also increased primarily due to lower worldwide theatrical and home entertainment revenues on feature films.

There was a decrease in personnel-related costs included in cost of sales of 9.8 billion yen, primarily within the Electronics segment, compared with the previous fiscal year.

Research and development costs (all research and development costs are included within cost of sales) for the fiscal year ended March 31, 2006 increased by 29.8 billion yen to 531.8 billion yen compared with the previous fiscal year. The ratio of research and development costs to sales was 7.9 percent compared to 7.6 percent in the previous fiscal year.

Selling, general and administrative expenses for the fiscal year ended March 31, 2006 decreased by 8.0 billion yen, or 0.5 percent, to 1,527.0 billion yen compared with the previous fiscal year. The ratio of selling, general and administrative expenses to sales improved from 23.2 percent in the previous fiscal year to 22.6 percent. Year on year, the ratio of selling, general and administrative expenses to sales improved from 19.0 percent to 18.1 percent in the Electronics segment and from 21.0 percent to 18.7 percent in the Game segment. On the other hand, the ratio of selling, general and administrative expenses to sales increased from 32.5 percent to 36.0 percent in the Pictures segment.





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Personnel-related costs in selling, general and administrative expenses decreased by 60.4 billion yen compared with the previous fiscal year mainly due to a decrease in severance-related expenses in the Electronics segment resulting from the implementation of restructuring initiatives. In addition, advertising and publicity expenses for the fiscal year increased by 59.8 billion yen compared with the previous fiscal year. This was due to the fact that advertising and publicity expenses increased, primarily within the Pictures and Game segments.

Loss on sale, disposal or impairment of assets, net was 73.9 billion yen, compared with 28.0 billion in the previous fiscal year. This increase was as a result of losses recorded on the sale, disposal and impairment of CRT and CRT television production equipment in the Electronics segment, as well as an asset impairment write-down associated with the sale of the Metreon, a U.S. entertainment complex.

***Operating Income***

Operating income for the fiscal year ended March 31, 2006 increased by 77.3 billion yen, or 67.9 percent, to 191.3 billion yen compared with the previous fiscal year. The operating income margin increased from 1.6 percent to 2.6 percent. In descending order by amount of financial impact, the Financial Services segment, the Pictures segment, All Other and the Game segment contributed to operating income. On the other hand, although there was a net gain from the transfer to the Japanese Government of the substitutional portion of Sony's Employee Pension Fund and the depreciation of the yen, the Electronics segment recorded an operating loss mainly due to a decrease in sales to outside customers, an increase in loss on sale, disposal or impairment of assets and a deterioration in the cost of sales ratio associated with a decline in unit selling prices. For a further breakdown of operating income for each segment, please refer to *Operating Performance by Business Segment* below.

***Other Income and Expenses***

In the consolidated results for the fiscal year ended March 31, 2006, other income increased by 56.0 billion yen, or 57.4 percent, to 153.6 billion yen, while other expenses increased by 4.2 billion yen, or 7.7 percent, to 58.5 billion yen, compared with the previous fiscal year. The net amount of other income and other expenses was net other income of 95.1 billion yen, an increase of 51.8 billion yen, compared with the previous fiscal year.

The gain on change in interest in subsidiaries and equity investees increased by 44.5 billion yen, or 272.7 percent compared to the previous fiscal year to 60.8 billion yen. This was mainly the result of a gain of 21.5 billion yen on the change in interest in subsidiaries and equity investees resulting from the initial public offering of Sony Communication Network Corporation (SCN), a gain of 20.6 billion yen on the change in interest resulting from the partial sale of Sony's investment in Monex Beans Holdings, Inc., and gains of 12.0 billion yen and 6.6 billion yen respectively on the change of interest at So-net M3 Inc., a consolidated subsidiary of SCN and at DeNA Co., Ltd., an equity affiliate of SCN accounted for by the equity method.

Interest and dividends of 24.9 billion yen was recorded in the fiscal year ended March 31, 2006 an increase of 10.2 billion yen, or 69.5 percent, compared with the previous year. This increase was mainly the result of an increase in interest received resulting from an improvement in the rate of return on overseas investments.

For the fiscal year ended March 31, 2006, interest payments totaling 29.0 billion yen were recorded, an increase of 4.4 billion yen, or 18.0 percent, compared with the previous year.

In addition, a net foreign exchange loss of 3.1 billion yen was recorded in the fiscal year ended March 31, 2006, compared to a net foreign exchange loss of 0.5 billion yen recorded in the previous fiscal year. The net foreign exchange loss was recorded because the value of the yen, especially during the first and third quarters of the fiscal year ended March 31, 2006, was lower than the value of the yen at the time that Sony entered into foreign exchange forward contracts and foreign currency option contracts. These contracts are entered into by Sony to mitigate the foreign exchange rate risk to cash flows that arises from settlements of foreign currency

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denominated accounts receivable and accounts payable, as well as foreign currency denominated transactions between consolidated subsidiaries.

***Income before Income Taxes***

Income before income taxes for the fiscal year ended March 31, 2006 increased 129.1 billion yen, or 82.1 percent, to 286.3 billion yen compared with the previous fiscal year, as a result of the increase in operating income and the increase in the net amount of other income and other expenses mentioned above.

***Income Taxes***

Income taxes for the fiscal year ended March 31, 2006 increased by 160.5 billion yen to 176.5 billion yen. Compared to an effective tax rate of 10.2 percent in the previous fiscal year, the effective tax rate was 61.6 percent in the current fiscal year. This effective tax rate exceeded the Japanese statutory tax rate primarily due to the recording of additional valuation allowances against deferred tax assets by Sony Corporation and several of Sony's Japanese domestic and overseas consolidated subsidiaries, mainly within the Electronics segment, due to continued losses recorded at these businesses and the recording of an additional tax provision for the undistributed earnings of certain foreign subsidiaries. The effective tax rate was significantly lower than the Japanese statutory rate in the previous fiscal year as a result of the reversal of valuation allowances at Sony's U.S. subsidiaries associated with an improvement in operating performance.

On June 30, 2006, Sony Corporation and SCEI each received notification from the Tokyo Regional Taxation Bureau ( TRTB ) of a reassessment of the profits they reported from transactions between SCEI and its subsidiary Sony Computer Entertainment America Inc. ( SCEA ), for the fiscal years ended March 31, 2000 through 2005. On the same date, Sony Corporation also received notification of a reassessment of the profits reported from transactions related to CD and DVD disc manufacturing operations with a number of its overseas subsidiaries for the fiscal years ended March 31, 2004 and 2005.

Sony Corporation and SCEI believe that their allocation of income for the periods in question was appropriate and that they have paid the proper amount of taxes in each of the jurisdictions. Therefore Sony Corporation and SCEI disagree with the position of the TRTB and have lodged an objection. In addition, Sony Corporation and SCEI plan to formally request bilateral consultations (where available) to obtain relief from double taxation under the applicable tax treaties of various countries.

Transfer pricing was reassessed in accordance with the notification from the TRTB, resulting in additional Japanese income of 74.4 billion yen, which led to Sony Corporation and SCEI incurring an estimated additional cash tax (including corporate tax and others) of approximately 27.9 billion yen. Sony Corporation and SCEI believe that double taxation will be avoided through the procedure described above, and therefore Sony does not expect any material impact on its consolidated profit and loss as a result of this reassessment.

***Results of Affiliated Companies Accounted for under the Equity Method***

Equity in net income of affiliated companies during the fiscal year ended March 31, 2006 was 13.2 billion yen, a decrease of 15.9 billion yen, or 54.6 percent compared to the previous fiscal year. Equity in net income of affiliated companies for the previous fiscal year included the recording of 12.6 billion yen as equity in net income for InterTrust Technologies Corporation ( InterTrust ), which reflected InterTrust's proceeds from a license agreement arising from the settlement of a patent-related suit. In the current fiscal year, Sony Ericsson, as a result of increased sales of products including camera phone and Walkman® phone models, contributed 29.0 billion yen to equity in net income, an increase of 11.6 billion yen compared to the previous fiscal year. Sony recorded equity income of 5.8 billion yen for SONY BMG MUSIC ENTERTAINMENT ( SONY BMG ) during the current fiscal year, compared to an equity loss of 3.4 billion yen in the previous fiscal year as a result of a reduction in restructuring charges and the realization of incremental cost savings. However, Sony recorded an equity in net loss of 7.2 billion yen for S-LCD Corporation ( S-LCD ), a joint-venture with Samsung Electronics Co., Ltd. for the manufacture of amorphous TFT LCD panels and equity in

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net loss of 16.9 billion yen for MGM Holdings, Inc. ( MGM Holdings ). The equity in net loss for MGM Holdings includes non-cash interest of 6.0 billion yen on cumulative preferred stock.

**Minority Interest in Income (Loss) of Consolidated Subsidiaries**

In the fiscal year ended March 31, 2006, minority interest in loss of consolidated subsidiaries of 0.6 billion yen was recorded compared to minority interest in income of 1.7 billion yen previous year. This loss was primarily due to the recording of loss at ST Mobile Display Corporation, a joint venture with Toyota Industries Corporation for the manufacture of low-temperature polysilicon thin film transistor liquid crystal display panels for mobile products.

**Net Income**

Net income for the fiscal year ended March 31, 2006 decreased by 40.2 billion yen, or 24.5 percent, to 123.6 billion yen compared with the previous fiscal year. This decrease was primarily the result of the above-mentioned increase in income taxes and decrease in equity in net income of affiliated companies. As a percentage of sales, net income decreased from 2.3 percent to 1.7 percent. Return on stockholders' equity decreased from 6.2 percent to 4.1 percent. (This ratio is calculated by dividing net income by the simple average of stockholders' equity at the end of the previous fiscal year and at the end of the fiscal year ended March 31, 2006.)

Basic net income per share was 122.58 yen compared with 175.90 yen in the previous fiscal year, and diluted net income per share was 116.88 yen compared with 158.07 yen in the previous fiscal year. Refer to Notes 2 and 21 of Notes to Consolidated Financial Statements.

**Operating Performance by Business Segment**

The following discussion is based on segment information. Sales and operating revenue in each business segment include intersegment transactions. Refer to Note 24 of Notes to Consolidated Financial Statements.

*Business Segment Information*

|                                    | <b>Fiscal Year Ended<br/>March 31</b> |             |                           |
|------------------------------------|---------------------------------------|-------------|---------------------------|
|                                    | <b>2005</b>                           | <b>2006</b> | <b>Percent<br/>change</b> |
|                                    | <b>(Yen in billions)</b>              |             |                           |
| <b>Sales and operating revenue</b> |                                       |             |                           |
| Electronics                        | 5,066.8                               | 5,150.5     | +1.7%                     |
| Game                               | 729.8                                 | 958.6       | +31.4                     |
| Pictures                           | 733.7                                 | 745.9       | +1.7                      |
| Financial Services                 | 560.6                                 | 743.2       | +32.6                     |
| All Other                          | 459.9                                 | 408.9       | -11.1                     |
| Elimination                        | (391.1)                               | (531.6)     |                           |
| Consolidated                       | 7,159.6                               | 7,475.4     | +4.4                      |

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|  | <b>Fiscal Year Ended<br/>March 31</b> |              |                       |
|--|---------------------------------------|--------------|-----------------------|
|  | <b>2005</b>                           | <b>2006</b>  | <b>Percent change</b> |
| <b>(Yen in billions)</b>                       |                                       |              |                       |
| <b>Operating income (loss)</b>                 |                                       |              |                       |
| Electronics                                    | (34.3)                                | (30.9)       |                       |
| Game   | 43.2                                  | 8.7          | -79.7%                |
| Pictures                                       | 63.9                                  | 27.4         | -57.1                 |
| Financial Services                             | 55.5                                  | 188.3        | +239.4                |
| All Other                                      | 4.2                                   | 16.2         | +286.4                |
| <b>Sub-Total</b>                               | <b>132.5</b>                          | <b>209.8</b> | <b>+58.3</b>          |
| Elimination and unallocated corporate expenses | (18.6)                                | (18.5)       |                       |
| <b>Consolidated</b>                            | <b>113.9</b>                          | <b>191.3</b> | <b>+67.9</b>          |

As of August 1, 2004, Sony and Bertelsmann AG combined their recorded music businesses in a joint venture. The newly formed company, SONY BMG, is 50 percent owned by each parent company. Under U.S. GAAP, SONY BMG is accounted for by Sony using the equity method and, since August 1, 2004, 50 percent of net profits or losses of this business have been included under Equity in net income (loss) of affiliated companies.

In connection with the establishment of this joint venture, Sony's non-Japan-based disc manufacturing and physical distribution businesses, formerly included within the Music segment, a separate reporting segment until the end of the previous fiscal year, have been reclassified to the Electronics segment to recognize the new management reporting structure whereby Sony's Electronics segment has now assumed responsibility for these businesses. Effective April 1, 2005, a similar change was made with respect to Sony's Japan-based disc manufacturing business. Results for the fiscal year ended March 31, 2005 in the Electronics segment have been restated to account for these reclassifications.

Effective April 1, 2005, Sony no longer breaks out its music business as a reportable segment as it no longer meets the materiality threshold. Accordingly, the results for Sony's music business are now included within All Other, and the results for the fiscal year ended March 31, 2005 have been reclassified to All Other for comparative purposes. Results for the fiscal year ended March 31, 2006 in All Other include the results of Sony Music Entertainment Inc.'s (SMEI) music publishing business and Sony Music Entertainment (Japan) Inc. (SMEJ), excluding Sony's Japan-based disc manufacturing business which, as noted above, has been reclassified to the Electronics segment. However, results for the previous fiscal year in All Other include the consolidated results for SMEI's recorded music business for the period through August 1, 2004, as well as the results for SMEI's music publishing business and SMEJ excluding Sony's Japan-based disc manufacturing business.

**Electronics**

Sales for the fiscal year ended March 31, 2006 increased 83.6 billion yen, or 1.7 percent, to 5,150.5 billion yen compared with the previous fiscal year. An operating loss of 30.9 billion in the Electronics segment was recorded compared to the operating loss of 34.3 billion yen in the previous fiscal year. Sales to outside customers on a yen basis decreased 0.9 percent compared to the previous fiscal year. Regarding sales to outside customers by geographical area, although sales decreased in Japan by 12 percent, in the U.S. by 1 percent and in Europe by 4 percent, sales increased by 11 percent in non-Japan Asia and other geographic areas (Other Areas).

In Japan, although there was a significant increase in the sales of LCD televisions, as well as increased sales for flash memory and hard drive digital audio players, sales decreased for such products as mobile phones, principally to Sony Ericsson, CRT televisions and plasma televisions. In the U.S., although there was an increase in sales of LCD

and rear projection televisions, sales decreased for such products as CRT and

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plasma televisions. In Europe, although sales increased for such products as LCD televisions, there was a decline in sales of such products as CRT and plasma televisions, and mobile phones, primarily to Sony Ericsson. In Other Areas, sales of such products as LCD televisions and PCs increased, while sales of such products as CD-R/ RW drives and CRT televisions decreased.

***Performance by Product Category***

Sales and operating revenue by product category discussed below represent sales to outside customers, which do not include intersegment transactions. Refer to Note 24 of Notes to Consolidated Financial Statements.

**Audio** sales decreased by 35.7 billion yen, or 6.2 percent, to 536.2 billion yen. Sales of flash memory and hard drive digital audio players increased significantly, in conjunction with an increase in shipments to approximately 4.5 million units, compared to approximately 850,000 unit shipments recorded in the previous fiscal year. On the other hand, there was a significant decrease in the unit shipments of both CD and MD format headphone stereos due to a shift in market demand. In addition, car audio experienced a decrease in sales, and there was a slight decrease in home audio sales.

**Video** sales decreased by 15.0 billion yen, or 1.4 percent, to 1,021.3 billion yen. In addition to a decrease in sales of digital cameras in Japan, the U.S. and Europe, there was a decrease in sales of VHS video recorders. Sales of digital cameras decreased, coupled with a decrease in worldwide shipments by approximately 0.5 million units to approximately 13.5 million units. Worldwide shipments of DVD recorders increased by approximately 300,000 units to approximately 2.0 million units, while sales increased slightly. Worldwide shipments of home-use video cameras increased by approximately 250,000 units to approximately 7.6 million units. DVD-Video player unit shipments decreased by approximately 1.5 million units to approximately 8.0 million units.

**Televisions** sales increased by 6.6 billion yen, or 0.7 percent, to 927.8 billion yen. There was a significant increase in worldwide sales of LCD televisions, as worldwide shipments of LCD televisions increased by approximately 1.8 million units, to approximately 2.8 million units. Sales of projection televisions increased as the sales percentage of higher priced units increased, although worldwide shipments remained largely unchanged at approximately 1.2 million units. On the other hand, there was a significant decrease in worldwide sales of CRT televisions, primarily as a result of both a decrease in worldwide shipments of CRT televisions by approximately 2.7 million units to approximately 6.8 million units due to the continued shift in demand towards flat panel televisions, as well as a fall in unit prices. In addition, sales of plasma televisions, where new product development has been terminated, also decreased worldwide.

**Information and Communications** sales increased by 26.4 billion yen, or 3.2 percent, to 842.5 billion yen. Although sales of desktop PCs decreased, overall sales increased as a result of favorable worldwide sales of notebook PCs. Worldwide unit shipments of PCs increased approximately 400,000 units to approximately 3.7 million units. Sales of broadcast- and professional-use products increased as a result of favorable sales of high-definition related products.

**Semiconductors** sales decreased by 5.5 billion yen, or 2.3 percent, to 240.8 billion yen. The decrease was due to a decrease in sales of CCDs as the result of pricing pressures.

**Components** sales increased by 37.3 billion yen, or 6.0 percent, to 656.8 billion yen. This increase was primarily due to an increase in sales of lithium-ion batteries, primarily for use in PCs and power tools, and Memory Sticks. On the other hand, sales of CD-R/ RW drives and optical pickups declined, primarily as a result of significant unit price declines. Sales of DVD+/-R/ RW drives increased, despite a deterioration in unit selling prices, as a result of a significant growth in units sold in association with the expansion of the market.

**Other** sales decreased by 57.0 billion yen, or 9.6 percent, to 538.2 billion yen. This decrease was the result of a decrease in sales of mobile phones, primarily to Sony Ericsson.

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In the Electronics segment, cost of sales for the fiscal year ended March 31, 2006 increased by 67.5 billion yen, or 1.6 percent to 4,184.5 billion yen compared with the previous fiscal year. The cost of sales ratio deteriorated by 0.1 percent to 81.9 percent compared to 81.8 percent in the previous fiscal year. Although there was an improvement in the cost of sales ratio for such products as video cameras and PCs, products that contributed to the deterioration in the cost of sales ratio included image sensors and CRT televisions, which experienced decreased sales. Restructuring charges recorded in cost of sales amounted to 23.8 billion yen, an increase of 14.2 billion yen compared with the 9.6 billion yen recorded in the previous fiscal year. Research and development costs decreased 15.2 billion yen, or 3.5 percent, from 433.3 billion yen in the previous fiscal year to 418.1 billion yen.

Selling, general and administrative expenses decreased by 27.2 billion yen, or 2.8 percent to 933.0 billion yen compared with the previous fiscal year. The primary reason for this decrease was the recording of a 64.5 billion yen net gain resulting from the transfer to the Japanese Government of the substitutional portion of Sony's Employee Pension Fund. Of the restructuring charges recorded in the Electronics segment, the amount recorded in selling, general and administrative expenses decreased by 4.1 billion yen from 53.6 billion yen in the previous fiscal year to 49.5 billion yen. Of the restructuring charges recorded in selling, general and administrative expenses, the amount recorded for headcount reductions, including reductions through the early retirement program, was 45.1 billion yen, a decrease of 5.8 billion yen compared with the previous fiscal year. On the other hand, royalty expenses decreased 17.2 billion yen. The ratio of selling, general and administrative expenses to sales decreased 0.9 percentage points from the 19.0 percent recorded in the previous fiscal year to 18.1 percent.

Loss on sale, disposal or impairment of assets, net increased 40.0 billion yen to 63.9 billion yen compared with the previous fiscal year. This amount includes 52.5 billion yen in restructuring charges, which includes 25.5 billion yen of restructuring charges related to CRT and CRT television manufacturing facilities in the U.S. The amount of restructuring charges included in loss on sale, disposal or impairment, net in the previous fiscal year was 19.2 billion yen.

The amount of operating loss recorded in the Electronics segment for the fiscal year ended March 31, 2006 decreased as a result of the net gain resulting from the transfer to the Japanese Government of the substitutional portion of Sony's Employee Pension Fund, despite the recording of increased restructuring charges. Regarding profit performance by product, excluding restructuring charges and the impact of the net gain resulting from the transfer to the Japanese Government of the substitutional portion of Sony's Employee Pension Fund, operating losses recorded by CRT televisions and LCD televisions increased, in addition to a decrease in operating income recorded by image sensors. On the other hand, the amount of operating loss recorded by DVD recorders (including PSX™) decreased. In addition, there was an increase in operating income for video cameras and PCs.

In August 2006, Dell Inc. ( Dell ) and Apple Computer Inc. ( Apple ) each announced voluntary recalls of lithium-ion battery packs used in certain notebook computers sold by these two companies. The recalled packs contain battery cells originally manufactured by Sony. Sony supports these recalls by our customers Dell and Apple.

As of August 31, 2006, Sony anticipates no further recalls of battery packs using these particular battery cells.

The recall arises because, on rare occasions, microscopic metal particles in the recalled battery cells may come into contact with other parts of the battery cell, leading to a short circuit within the cell. Typically, a battery pack will simply power off when a cell short circuit occurs. However, under certain rare conditions, an internal short circuit may lead to cell overheating and potentially flames. The potential for this to occur can be affected by variations in the system configurations found in different notebook computers. Sony has introduced a number of additional safeguards into its battery manufacturing process to address this condition and to provide a greater level of safety and security.

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As of August 31, 2006, Sony estimates that the overall cost to Sony in supporting the recall programs of Apple and Dell will amount to between 20 billion yen and 30 billion yen. This overall cost is an estimate based on the costs of replacement battery packs and any other related costs to be incurred by Sony.

***Manufacturing by Geographic Area***

Slightly more than 50 percent of the Electronics segment's total annual production during the fiscal year ended March 31, 2006 took place in Japan, including the production of digital cameras, video cameras, flat panel televisions, PCs, semiconductors and components such as batteries and Memory Stick. Approximately 65 percent of the annual production in Japan was destined for other regions. China accounted for slightly more than 10 percent of total annual production, approximately 70 percent of which was destined for other regions. Asia, excluding Japan and China, accounted for slightly more than 10 percent of total annual production, with approximately 60 percent destined for Japan, the U.S. and Europe. The Americas and Europe together accounted for the remaining slightly less than 25 percent of total annual production, most of which was destined for local distribution and sale.

***Comparison of Results on a Local Currency Basis and Results on a Yen Basis***

In the Electronics segment, operating results benefited from the positive effect of the depreciation of the yen against the U.S. dollar and the Euro. Sales for the fiscal year ended March 31, 2006 increased, on a yen basis, by 1.7 percent, but decreased on a local currency basis by approximately 3 percent. In terms of operating performance, there was a decrease in the amount of operating loss compared to the previous fiscal year, but if calculated on a local currency basis, this operating loss was larger when compared to the actual results on a yen basis.

Sales to outside customers by geographic area on a yen basis decreased in Japan by 12 percent, in the U.S. by 1 percent and in Europe by 4 percent. However, sales increased in Other Areas by 11 percent. Sales on a local currency basis for regions outside Japan decreased in the U.S. and Europe by 7 percent, but increased by 2 percent in Other Areas.

***Game***

Sales for the fiscal year ended March 31, 2006 increased by 228.9 billion yen, or 31.4 percent, to 958.6 billion yen compared with the previous fiscal year. Operating income decreased by 34.4 billion yen, or 79.7 percent, to 8.7 billion yen compared with the previous fiscal year, and the operating income margin decreased from 5.9 percent to 0.9 percent.

Sales in the Game segment on a local currency basis increased approximately 27 percent. In addition, on a local currency basis, operating income decreased approximately 62 percent compared to the previous fiscal year. By region, although sales decreased slightly in Japan, there was a significant increase in sales in the U.S. and Europe.

There was a significant increase in hardware sales compared to the previous fiscal year. Sales increased significantly, mainly in the U.S and Europe, and sales in Japan remained relatively unchanged compared to the previous fiscal year, primarily due to a significant contribution to sales from PSP, which experienced favorable growth in all geographic areas and the fact that PlayStation®2 ( PS2 ) sales were on a par with those in the previous fiscal year. In addition, although PS2 software sales decreased, as a result of the contribution to sales from PSP software, software sales in Japan, the U.S. and Europe were relatively unchanged compared to the previous fiscal year.



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Total worldwide production shipments of hardware and software were as follows:

Worldwide hardware production shipments:\*

|      |  |
|------|--|
| PS2: | 16.22 million units (an increase of 0.05 million units)  |
| PSP: | 14.06 million units (an increase of 11.09 million units) |

Worldwide software production shipments:\*/\*\*

|      |  |
|------|--|
| PS2: | 223 million units (a decrease of 29 million units)     |
| PSP: | 41.6 million units (an increase of 35.9 million units) |

\* Production shipments of hardware and software are counted upon shipment of the products from manufacturing bases. Sales of such products are recognized when the products are delivered to customers.

\*\* Including those both from Sony and third parties under Sony licenses.

Operating income decreased significantly compared with the previous fiscal year. Although profits from the PS2 and PSP businesses exceeded those in the previous fiscal year, the decrease in operating income was mainly the result of continued high research and development costs associated with PS3, as well as the recording of charges associated with preparation for the launch of the PS3 platform including a write-down of approximately 25.0 billion yen for semiconductor components for use in PS3.

The cost of sales to sales ratio deteriorated by 7.4 percent, from 73.0 percent in the previous fiscal year, to 80.4 percent for the reasons mentioned above for operating income. The ratio of selling, general and administrative expenses to sales decreased by 2.3 percent, compared to 21.0 percent in the previous fiscal year, to 18.7 percent as a result of the sales increase.

Charges related to the launch of the PS3 platform are anticipated to result in a significant loss within the Game segment for the fiscal year ending March 31, 2007, reflecting primarily an expected negative margin as a result of strategic pricing on PS3 hardware sales.

**Pictures**

Sales for the fiscal year ended March 31, 2006 increased by 12.2 billion yen, or 1.7 percent, to 745.9 billion yen compared with the previous fiscal year. Operating income decreased by 36.5 billion yen, or 57.1 percent, to 27.4 billion yen and the operating income margin decreased from 8.7 percent to 3.7 percent. The results in the Pictures segment consist of the results of Sony Pictures Entertainment Inc. ( SPE ), a U.S.-based subsidiary.

On a U.S. dollar basis, sales for the fiscal year in the Pictures segment decreased approximately 4 percent and operating income decreased by approximately 61 percent. Sales decreased primarily due to lower worldwide theatrical and home entertainment revenues on feature films, partially offset by an increase in television product revenues. The lower theatrical and home entertainment revenues primarily resulted from the strong performance of *Spider-Man 2* in the prior fiscal year coupled with the disappointing performance of certain films in the current fiscal year film slate, particularly *Stealth*, *Zathura* and the *Legend of Zorro*. Sales for the fiscal year release slate decreased 967 million U.S. dollars as compared to the previous fiscal year. Television product revenues increased by approximately 220 million U.S. dollars primarily due to higher advertising and subscription sales from several of SPE's international channels, higher sales of television library product and the extension of a licensing agreement for *Wheel of Fortune*.

Operating income for the segment decreased significantly, primarily due to the disappointing overall performance of the current fiscal year's film slate in both the theatrical and home entertainment markets. Operating loss from the current fiscal year release slate increased 623 million U.S. dollars as compared to the prior fiscal year's release slate due to the same factors contributing to the decrease in film revenue noted above. Partially offsetting this was an increase in operating income of 83 million U.S. dollars for television product due to the same factors noted above for revenue.



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As of March 31, 2006, unrecognized license fee revenue at SPE was approximately 1.2 billion U.S. dollars. SPE expects to record this amount in the future having entered into contracts with television broadcasters to provide those broadcasters with completed motion picture and television product. The license fee revenue will be recognized in the fiscal year that the product is available for broadcast.

**Financial Services**

Please note that the revenue and operating income at Sony Life, Sony Assurance Inc. ( Sony Assurance ) and Sony Bank Inc. ( Sony Bank ) discussed below on a U.S. GAAP basis differ from the results that Sony Life, Sony Assurance and Sony Bank disclose on a Japanese statutory basis.

Financial Services revenue for the fiscal year ended March 31, 2006 increased by 182.7 billion yen, or 32.6 percent, to 743.2 billion yen compared with the previous fiscal year. Operating income increased by 132.8 billion yen, or 239.4 percent, to 188.3 billion yen and the operating income margin increased to 25.3 percent compared with the 9.9 percent of the previous fiscal year.

At Sony Life, revenue increased by 170.8 billion yen, or 36.0 percent, to 645.0 billion yen compared with the previous fiscal year. The main reasons for this increase were an improvement in gains and losses from investments at Sony Life, primarily within the general account, as well as an increase in revenue from insurance premiums reflecting an increase of insurance-in-force. The improvement in gains and losses from investments in the general account was principally a result of an improvement in valuation gains from stock conversion rights in convertible bonds resulting from the aforementioned favorable Japanese domestic stock market conditions. Operating income at Sony Life increased by 127.4 billion yen or 208.8 percent to 188.4 billion yen, mainly as a result of a significant improvement in gains and losses on investments in the general account mentioned above.

At Sony Assurance, revenue increased due to higher insurance revenue brought about by an expansion in automobile insurance-in-force. Operating income increased due to an increase in insurance revenue and an improvement in the expense ratio (the ratio of sales, general and administrative expenses to premiums).

At Sony Bank, which started operations in June 2001, although foreign exchange losses were recorded as a result of the depreciation of the yen on part of Sony Bank's foreign currency deposits, revenue rose as there was an increase in interest revenue associated with an increase in the balance of assets from investing activities, in addition to revenues from other investing activities. The amount of the operating loss decreased compared with the previous fiscal year, as a result of the increase in revenue.

At Sony Finance International, Inc. ( Sony Finance ), a leasing and credit financing business subsidiary in Japan, revenue increased due to an increase in leasing and credit card revenue. In terms of profitability, a reduced operating loss was recorded compared to the previous fiscal year, as a result of improved profitability at a credit card business at Sony Finance.

***Condensed Statements of Income Separating Out the Financial Services Segment (Unaudited)***

The following schedule shows unaudited condensed statements of income for the Financial Services segment and all other segments excluding Financial Services as well as condensed consolidated statements of income. This presentation is not required under U.S. GAAP, which is used in Sony's consolidated financial statements. However, because the Financial Services segment is different in nature from Sony's other segments, Sony believes that a comparative presentation may be useful in understanding and analyzing Sony's consolidated financial statements.

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Transactions between the Financial Services segment and all other segments excluding Financial Services are eliminated in the consolidated figures shown below.

**Condensed Statements of Income**

|  | <b>Fiscal Year ended<br/>March 31</b> |             |
|--|---------------------------------------|-------------|
|  | 2005                                  | <b>2006</b> |
|  | (Yen in millions)                     |             |
| <b>Financial Services</b>                                      |                                       |             |
| Financial service revenue                                      | 560,557                               | 743,215     |
| Financial service expenses                                     | 505,067                               | 554,892     |
| <b>Operating income</b>  | 55,490                                | 188,323     |
| Other income (expenses), net                                   | 10,204                                | 24,522      |
| <b>Income before income taxes</b>                              | 65,694                                | 212,845     |
| Income taxes and other   | 25,698                                | 80,586      |
| <b>Income before cumulative effect of an accounting change</b> | 39,996                                | 132,259     |
| Cumulative effect of an accounting change                      | (4,713)                               |             |
| <b>Net income</b>  | 35,283                                | 132,259     |

|   | <b>Fiscal Year ended<br/>March 31</b> |             |
|---|---------------------------------------|-------------|
|   | 2005                                  | <b>2006</b> |
|   | (Yen in millions)                     |             |
| <b>Sony without Financial Services</b>                                |                                       |             |
| Net sales and operating revenue                                       | 6,632,728                             | 6,763,907   |
| Costs and expenses  | 6,575,354                             | 6,762,375   |
| <b>Operating income</b>   | 57,374                                | 1,532       |
| Other income (expenses), net  | 40,639                                | 71,952      |
| <b>Income before income taxes</b>                                     | 98,013                                | 73,484      |
| Income taxes and other  | (37,043)                              | 82,127      |
| <b>Income (loss) before cumulative effect of an accounting change</b> | 135,056                               | (8,643)     |
| Cumulative effect of an accounting change                             |                                       |             |
| <b>Net income (loss)</b>  | 135,056                               | (8,643)     |



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|  | <b>Fiscal Year ended<br/>March 31</b> |             |
|--|---------------------------------------|-------------|
|  | <b>2005</b>                           | <b>2006</b> |
| <b>(Yen in millions)</b>                                       |                                       |             |
| <b>Consolidated</b>  |                                       |             |
| Financial service revenue                                      | 537,715                               | 720,566     |
| Net sales and operating revenue                                | 6,621,901                             | 6,754,870   |
|  | 7,159,616                             | 7,475,436   |
| Costs and expenses   | 7,045,697                             | 7,284,181   |
| <b>Operating income</b>  | 113,919                               | 191,255     |
| Other income (expenses), net                                   | 43,288                                | 95,074      |
| <b>Income before income taxes</b>                              | 157,207                               | 286,329     |
| Income taxes and other   | (11,344)                              | 162,713     |
| <b>Income before cumulative effect of an accounting change</b> | 168,551                               | 123,616     |
| Cumulative effect of an accounting change                      | (4,713)                               |             |
| <b>Net income</b>  | 163,838                               | 123,616     |

**All Other**

During the fiscal year ended March 31, 2006, sales within All Other were comprised mainly of sales from SMEJ, a Japanese domestic recorded music business; SMEI's music publishing business; SCN, an Internet-related service business subsidiary operating mainly in Japan; a retailer of imported general merchandise in Japan; an in-house facilities management business in Japan; and an advertising agency business in Japan. Results for the first four months of the previous fiscal year in All Other incorporated the results for SMEI's recorded music business, which, as noted above, was combined with Bertelsmann AG's recorded music business to form the SONY BMG joint venture which is accounted for by the equity method.

Sales for the fiscal year ended March 31, 2006 decreased by 51.0 billion yen, or 11.1 percent, to 408.9 billion yen, compared with the previous fiscal year. Of total segment sales, 80 percent were sales to outside customers. In terms of profit performance, operating income for All Other increased for the fiscal year from 4.2 billion yen to 16.2 billion yen.

During the fiscal year, the sales decrease within All Other reflects the fact that, as noted above, the results for the first four months of the previous fiscal year in All Other incorporated the results for SMEI's recorded music business.

Sales at SMEJ were relatively unchanged compared with the previous fiscal year. Best selling albums during the fiscal year included *Ken Hirai 10th Anniversary Complete Single Collection 95-05 Uta Baka* by Ken Hirai, *NATURAL* by ORANGE RANGE and *BEST* by Mika Nakashima.

Excluding sales recorded within Sony's music business, there was an increase in sales within All Other. This increase was mainly due to strong sales at a business engaged in the production and marketing of animation products, favorable sales both at SCN and its subsidiaries, as well as an increase in sales recorded at an imported general merchandise retail business.

Regarding profit performance within All Other, operating income of 16.2 billion yen was recorded, an 12.0 billion yen increase compared to the 4.2 billion yen of operating income recorded in the previous fiscal year. This increase was mainly the result of the fact that the results for SMEI's recorded music business, which recorded an operating loss

in the previous fiscal year, are now recorded as part of the results of the SONY BMG joint venture, and the continued strong performance at SMEJ, where operating income increased approximately 40 percent compared to the previous fiscal year mainly due to an improvement in the cost of sales ratio and the recording of a net gain resulting from the transfer to the Japanese government of the substitutional portion of Sony's Employee Pension Fund.

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Excluding the operating income recorded in the music business, a loss was recorded within All Other mainly as the result of an asset impairment write-down associated with the sale of the Metreon, a U.S. entertainment complex. This was offset to some extent by cost reductions at network related businesses within Sony Corporation.

In June 2006, Sony Corporation transferred 51 percent stock of StylingLife Holdings Inc., a holding company covering six retail companies within Sony previously included within All Other, to a wholly-owned subsidiary of Nikko Principal Investments Japan Ltd. As a result of this transaction, Sony recognized a 18.0 billion yen gain on change in interest in subsidiaries and equity investees during the first quarter of the fiscal year ending March 31, 2007.

***Foreign Exchange Fluctuations and Risk Hedging***

During the fiscal year ended March 31, 2006, the average value of the yen was 112.3 yen against the U.S. dollar, and 136.3 yen against the Euro, which was 5.1 percent lower against the U.S. dollar and 2.0 percent lower against the Euro, respectively, compared with the average of the previous fiscal year. Operating results on a local currency basis described in Overview and Operating Performance show results of sales and operating revenue and operating income obtained by applying the yen's monthly average exchange rate in the previous fiscal year to monthly local currency-denominated sales, cost of sales, and selling, general and administrative expenses for the fiscal year ended March 31, 2006, as if the value of the yen had remained constant.

In the Pictures segment, Sony translates into yen the U.S. dollar consolidated results of SPE (a U.S.-based operation that has worldwide subsidiaries).

Therefore, analysis and discussion of certain portions of the operating results of SPE are specified as being on a U.S. dollar basis. Results on a local currency basis and results on a U.S. dollar basis are not on the same basis as Sony's consolidated financial statements and do not conform with U.S. GAAP. In addition, Sony does not believe that these measures are a substitute for U.S. GAAP measures. However, Sony believes that local currency basis results provide additional useful information to investors regarding operating performance.

Sony's consolidated results are subject to foreign currency rate fluctuations mainly derived from the fact that the countries where manufacturing takes place may be different from those where such products are sold. In order to reduce the risk caused by such fluctuations, Sony employs derivatives, including foreign exchange forward contracts and foreign currency option contracts, in accordance with a consistent risk management strategy. Such derivatives are used primarily to mitigate the effect of foreign currency exchange rate fluctuations on cash flows generated by anticipated intercompany transactions and intercompany accounts receivable and payable denominated in foreign currencies.

Sony Global Treasury Services Plc ( SGTS ) in London provides integrated treasury services for Sony Corporation and its subsidiaries. Sony's policy is that Sony Corporation and all subsidiaries with foreign exchange exposures should enter into commitments with SGTS for hedging their exposures. Sony Corporation and most of its subsidiaries utilize SGTS for this purpose. The concentration of foreign exchange exposures at SGTS means that, in effect, SGTS hedges the net foreign exchange exposure of Sony Corporation and its subsidiaries. SGTS in turn enters into foreign exchange transactions with creditworthy third-party financial institutions. Most of the transactions are entered into against projected exposures before the actual export and import transactions take place. In general, SGTS hedges the projected exposures on average three months before the actual transactions take place. However, in certain cases SGTS partially hedges the projected exposures one month before the actual transactions take place when business requirements such as shorter production-sales cycle for certain products arise. Sony enters into foreign exchange transactions with financial institutions primarily for hedging purposes. Sony does not use these derivative financial instruments for trading or speculative purposes except for certain derivatives in the Financial Services segment utilized for portfolio investments and Asset Liability Management ( ALM ).



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To minimize the adverse effects of foreign exchange fluctuations on its financial results, particularly in the Electronics segment, Sony seeks, when appropriate, to localize material and parts procurement, design, and manufacturing operations in areas outside of Japan.

Changes in the fair value of derivatives designated as cash flow hedges, including foreign exchange forward contracts and foreign currency option contracts, are initially recorded in accumulated other comprehensive income and reclassified into earnings when the hedged transaction affects earnings. Foreign exchange forward contracts, foreign currency option contracts and other derivatives that do not qualify as hedges are marked-to-market with changes in value recognized in Other Income and Expenses. The notional amounts of foreign exchange forward contracts, currency option contracts purchased and currency option contracts written as of March 31, 2006 were 1,489.2 billion yen, 457.4 billion yen and 163.7 billion yen, respectively.

***Operating Results for the Fiscal Year Ended March 31, 2005 compared with the Fiscal Year Ended March 31, 2004*****Overview**

After translation of Sony's financial results into yen (the currency in which Sony's financial statements are prepared), in accordance with Generally Accepted Accounting Principles in the U.S. ( U.S. GAAP ), Sony's sales and operating revenue ( sales ) for the fiscal year ended March 31, 2005 decreased 4.5 percent compared with the previous fiscal year. On a local currency basis (regarding references to results of operations expressed on a local currency basis, refer to *Foreign Exchange Fluctuations and Risk Hedging* below), sales for the fiscal year decreased approximately 3 percent. This decrease is mainly due to the fact that, as of August 1, 2004, the sales of Sony's overseas recorded music business are no longer recorded within Sony's consolidated sales as a result of the establishment of SONY BMG, which is accounted for by the equity method, through the merger of Sony's overseas recorded music business with Bertelsmann AG's recorded music business, and a change in the method of recognizing insurance premiums received on certain products at Sony Life, as of the third quarter beginning October 1, 2003, from being recorded as revenues to being offset against the related provision for future insurance policy benefits.

Operating income increased 15.2 percent compared with the previous fiscal year. On a local currency basis, operating income increased approximately 26 percent compared with the previous fiscal year. In addition to a decrease in restructuring charges compared to the previous fiscal year, increased operating income was recorded in the Pictures segment, where *Spider-Man 2* was a significant contributor, and operating income was recorded in All Other, where several best-selling albums and singles at SMEJ contributed to improved profitability. On the other hand, the Electronics segment, where the cost of sales ratio deteriorated due to pricing pressures, and the Game segment, where there was a decrease in hardware sales, both experienced deteriorated profitability.

**Restructuring**

In the fiscal year ended March 31, 2005, Sony recorded restructuring charges of 90.0 billion yen, a decrease from the 168.1 billion yen recorded in the previous fiscal year. The primary restructuring activities were in the Electronics segment and All Other.

Of the total 90.0 billion yen, Sony recorded 53.6 billion yen in personnel-related costs. This expense was incurred because 12,000 people, mainly in Japan, the U.S. and Western Europe, left the company primarily through early retirement programs.

For more detailed information about restructuring, please refer to Note 17 of Notes to the Consolidated Financial Statements.

***Electronics***

Restructuring charges in the Electronics segment for the fiscal year ended March 31, 2005 were 83.2 billion yen, compared to 145.7 billion yen in the previous fiscal year. Of these restructuring charges, for

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the fiscal year ended March 31, 2004 restructuring charges of 2.1 billion yen were recorded in Sony's non-Japan disc manufacturing and physical distribution businesses, formerly included within the Music segment, a separate reporting segment until the end of the previous fiscal year, have been reclassified to the Electronics segment to recognize the new management reporting structure whereby Sony's Electronics segment has now assumed responsibility for these businesses. See Note 24 of Notes to the Consolidated Financial Statements for more information on this reclassification.

In the fiscal year ended March 31, 2004, Sony made a decision to shut down certain CRT TV display manufacturing operations in Japan to rationalize production facilities and downsize its business, due to a contraction in the market as a result of a shift in demand from CRT televisions to plasma and LCD panel televisions. In the fiscal year ended March 31, 2005, as part of this restructuring program, Sony recorded a non-cash impairment charge of 7.5 billion yen for the CRT TV display manufacturing facilities located in Europe. The impairment charge was calculated as the difference between the carrying value of the asset group and the present value of estimated future cash flows. The charge was recorded in loss on sale, disposal or impairment of assets, net in the consolidated statements of income.

In addition to the above restructuring efforts, Sony undertook several headcount reduction programs to further reduce operating costs in the Electronics segment. As a result of these programs, Sony recorded restructuring charges of 51.0 billion yen for the fiscal year ended March 31, 2005, and these charges were included 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. The remaining liability balance as of March 31, 2005 was 14.0 billion yen and will be paid through the fiscal year ended March 31, 2006.

***All Other***

Restructuring charges in All Other, including at SMEJ, for the fiscal year ended March 31, 2005 were 5.3 billion yen, compared to 13.7 billion yen in the previous fiscal year.

With regard to Sony's music business included within All Other, due to the continued contraction of the worldwide music market caused by slow worldwide economic growth, the saturation of the CD market, the effects of piracy and other illegal duplication, parallel imports, pricing pressures and the diversification of customer preferences, Sony has been actively repositioning its music business for the future by looking to create a more effective and profitable business model. As a result, Sony's music business has undertaken a worldwide restructuring program since the fiscal year ended March 31, 2001 to reduce staffing and other costs through the consolidation and rationalization of facilities worldwide.

During the fiscal year ended March 31, 2005, in continuation of the worldwide restructuring program and in connection with the merger of its recorded music business into a joint venture with Bertelsmann AG, Sony recorded restructuring charges totaling 3.0 billion yen within its music business. These restructuring charges exclude restructuring charges that were recorded in the disc manufacturing and physical distribution businesses that were formerly included within the Music segment, a separate reporting segment until the end of the previous fiscal year, but have now been reclassified to the Electronics segment. Restructuring activities included the shutdown of certain distribution operations after the establishment of the recorded music joint venture with Bertelsmann AG as well as the further rationalization of overhead functions through staff reductions. The restructuring charges consisted of personnel-related costs of 0.9 billion yen and other related costs of 2.1 billion yen. These charges are included in selling, general and administrative expenses in the consolidated statements of income. Positions were eliminated across various employee levels, business functions, operating units, and geographic regions during this phase of the worldwide restructuring program.

Excluding restructuring within Sony's consolidated music business, 2.0 billion yen of restructuring charges were recorded within All Other during the fiscal year ended March 31, 2005, mainly as a result of non-cash impairment charges recorded at resulting network-related businesses within Sony Corporation as a result of business reorganizations. The restructuring charges consisted of personnel-related costs of 0.7 billion yen and other related costs of 1.3 billion yen.



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|  | <b>Fiscal Year Ended<br/>March 31</b> |             | <b>Percent<br/>change</b> |
|--|---------------------------------------|-------------|---------------------------|
|  | <b>2004</b>                           | <b>2005</b> |                           |
|  | <b>(Yen in billions)</b>              |             |                           |
| Sales and operating revenue                  | 7,496.4                               | 7,159.6     | -4.5%                     |
| Operating income                             | 98.9                                  | 113.9       | +15.2                     |
| Income before income taxes                   | 144.1                                 | 157.2       | +9.1                      |
| Equity in net income of affiliated companies | 1.7                                   | 29.0        | +1,594.2                  |
| Net income                                   | 88.5                                  | 163.8       | +85.1                     |

**Sales**

Sales for the fiscal year ended March 31, 2005 decreased by 336.8 billion yen, or 4.5 percent, to 7,159.6 billion yen compared with the previous fiscal year. A further breakdown of sales figures is presented under *Operating Performance by Business Segment* below.

Sales in this analysis of the ratio of selling, general and administrative expenses to sales refers only to the net sales and other operating revenue portions of consolidated sales and operating revenue, and excludes Financial service revenue. This is because Financial Service expenses are recorded separately from cost of sales and selling, general and administrative expenses. Furthermore, in the analysis of cost of sales, including research and development costs, to sales, only net sales are used. This is because cost of sales is an expense associated only with net sales. The calculations of all ratios below that pertain to business segments include intersegment transactions.

**Cost of Sales and Selling, General and Administrative Expenses**

Cost of sales for the fiscal year ended March 31, 2005 decreased by 58.1 billion yen, or 1.1 percent, to 5,000.1 billion yen compared with the previous fiscal year, but increased from 73.5 percent to 76.2 percent as a percentage of sales. Year on year, the cost of sales ratio rose from 78.9 percent to 81.8 percent in the Electronics segment, increased from 70.1 percent to 73.0 percent in the Game segment and decreased from 74.0 percent to 73.7 percent in All Other. On the other hand, the cost of sales ratio improved in the Pictures segment from 60.0 percent to 58.7 percent.

In the Electronics segment, there was a deterioration in the cost of sales ratio particularly within the CRT television, portable audio, DVD recorder (including PSX) and video camera businesses. In the Game segment, there was an increase in the cost of sales ratio as a result of costs associated with both the launch of PSP and the changeover to the new PS2 model. In the Pictures segment, the cost of sales ratio also improved primarily due to the substantial contribution from *Spider-Man 2*. In All Other, there was an improvement in the cost of sales ratio in the music business due to the establishment of SONY BMG which is accounted for under the equity method resulting in a higher percentage of sales being derived from SMEJ which benefited from the contribution of greatest hits album sales.

Personnel-related costs included in cost of sales decreased by 52.5 billion yen compared with the previous fiscal year, primarily within the Electronics segment.

Research and development costs (all research and development costs are included within cost of sales) for the fiscal year ended March 31, 2005 decreased by 12.5 billion yen to 502.0 billion yen compared with the previous fiscal year. The ratio of research and development costs to sales was 7.6 percent compared to 7.5 percent in the previous fiscal year.

Selling, general and administrative expenses for the fiscal year ended March 31, 2005 decreased by 263.2 billion yen, or 14.6 percent, to 1,535.0 billion yen compared with the previous fiscal year. The ratio of selling, general and administrative expenses to sales improved from 25.9 percent in the previous fiscal year to 23.2 percent. Year on year, the ratio of selling, general and administrative expenses to sales improved from 21.2 percent to 19.0 percent in the

Electronics segment, from 21.1 percent to 21.0 percent in the Game

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segment, and improved from 39.5 percent to 37.3 percent in All Other, and from 35.0 percent to 32.5 percent in the Pictures segment.

Personnel-related costs in selling, general and administrative expenses decreased by 169.3 billion yen compared with the previous fiscal year mainly due to a decrease in severance related expenses in the Electronics segment resulting from the implementation of restructuring initiatives, and the fact that personnel-related costs in Sony's recorded music business outside Japan are no longer recorded within Sony's consolidated selling, general and administrative expenses due to the establishment of SONY BMG mentioned above. In addition, advertising and publicity expenses for the fiscal year decreased by 51.6 billion yen compared to the previous fiscal year. This was primarily due to the fact that advertising and publicity expenses that were recorded in All Other decreased due to the establishment of SONY BMG and a reduction in advertising and publicity expenses in the Pictures segment.

Loss on sale, disposal or impairment of assets, net was 28.0 billion yen, compared with 35.5 billion in the previous fiscal year. Although losses were recorded on the sale, disposal and impairment of CRT and CRT television production equipment in the Electronics segment, gains were recorded mainly from the sale of land and buildings in both the Electronics segment and All Other.

***Operating Income***

Operating income for the fiscal year ended March 31, 2005 increased by 15.0 billion yen, or 15.2 percent, to 113.9 billion yen compared with the previous fiscal year. The operating income margin increased from 1.3 percent to 1.6 percent. The business segments that contributed the most to operating income, in descending order by amount of financial impact, were the Pictures, Financial Services and Game segments. On the other hand, the Electronics segment recorded an operating loss mainly due to the appreciation of the yen against the U.S. dollar as well as an increase in cost of sales that exceeded the reduction in selling, general and administrative expenses. For a further breakdown of operating income for each segment, please refer to *Operating Performance by Business Segment* below.

***Other Income and Expenses***

In the consolidated results for the fiscal year ended March 31, 2005, other income decreased by 24.7 billion yen, or 20.2 percent, to 97.6 billion yen, while other expenses decreased by 22.8 billion yen, or 29.5 percent, to 54.3 billion yen, compared with the previous fiscal year. The net amount of other income and other expenses was net other income of 43.3 billion yen, a decrease of 1.9 billion yen, or 4.2 percent, compared with the previous fiscal year.

A net foreign exchange loss of 0.5 billion yen was recorded in the fiscal year ended March 31, 2005, compared to a net foreign exchange gain of 18.1 billion yen recorded in the previous fiscal year. The net foreign exchange loss was recorded because the value of the yen, especially during the first quarter of the fiscal year ended March 31, 2005, was lower than the value of the yen at the time that Sony entered into foreign exchange forward contracts and foreign currency option contracts. These contracts are entered into by Sony to mitigate the foreign exchange rate risk to cash flows that arises from settlements of foreign currency denominated accounts receivable and accounts payable, as well as foreign currency denominated transactions between consolidated subsidiaries.

For the fiscal year ended March 31, 2005, a loss on devaluation of securities investments of 3.7 billion yen was recorded, an improvement of 12.8 billion yen, or 77.5 percent, compared with the previous year. This improvement was primarily due to the recording of valuation losses of 10.3 billion yen in the previous fiscal year related to securities issued by a privately held Japanese company engaged in cable broadcasting and other businesses which Sony accounted for under the cost method.

The gain on change in interest in subsidiaries and equity investees increased by 11.5 billion yen, or 235.2 percent compared to the previous fiscal year to 16.3 billion yen. This was mainly the result of gains of 9.0 billion yen from a change in interest from Monex Inc., an equity affiliate of Sony, following its business integration by way of share transfer with Nikko Beans, Inc and total gains of 4.7 billion yen from the sale of

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stock and a change in interest in a subsidiary resulting from the initial public offering of So-net M3 Inc., a consolidated subsidiary of SCN.

In addition, the net gain recorded on sales of securities investments decreased 6.3 billion yen, or 53.8 percent, to 5.4 billion yen. This was primarily a result of the recording of a deferred gain of 6.0 billion yen in the fiscal year ended March 31, 2004, from Sony's sale, during the fiscal year ended March 31, 2003, of its equity interest in Telemundo Communications Group, Inc. and its subsidiaries, a U.S.-based Spanish language television network and station group that was accounted for under the equity method.

***Income before Income Taxes***

Income before income taxes for the fiscal year ended March 31, 2005 increased 13.1 billion yen, or 9.1 percent, to 157.2 billion yen compared with the previous fiscal year, as a result of the increase in operating income and the decrease in net amount of other income and other expenses mentioned above.

***Income Taxes***

Income taxes for the fiscal year ended March 31, 2005 decreased by 36.7 billion yen, or 69.6 percent, to 16.0 billion yen. Compared to an effective tax rate of 36.6 percent in the previous fiscal year, the effective tax rate was 10.2 percent in the current fiscal year. As a result of the recording of operating losses in the past, the U.S. subsidiaries of Sony have had valuation allowances against deferred tax assets for U.S. federal taxes and certain state taxes. However, in the fiscal year ended March 31, 2005, based on both improved operating results in recent years and a sound outlook for the future operating performance at Sony's U.S. subsidiaries, Sony reversed 67.9 billion yen of such valuation allowances, resulting in a reduction to income tax expense. On the other hand, certain of Sony's subsidiaries recorded new valuation allowances against deferred tax assets during the fiscal year ended March 31, 2005.

***Results of Affiliated Companies Accounted for under the Equity Method***

Equity in net income of affiliated companies during the fiscal year ended March 31, 2005 was 29.0 billion yen, an increase of 27.3 billion yen, or 1,594.2 percent, compared to 1.7 billion yen recorded in the previous fiscal year. Equity in net income of Sony Ericsson, a joint venture focused on mobile phone handsets, was 17.4 billion yen, an increase of 11.0 billion yen, or 171.9 percent, compared to the 6.4 billion yen recorded in the previous fiscal year. Equity in net income of affiliated companies for the current fiscal year includes the recording of 12.6 billion yen as equity in net income from InterTrust. This amount reflects InterTrust's proceeds from a license agreement with Microsoft Corporation arising from the settlement of a patent-related lawsuit. In addition, due to significant restructuring costs, an equity loss of 3.4 billion yen was recorded at SONY BMG. Furthermore, equity in net loss was recorded at affiliates such as Star Channel Inc., a Japan-based subscription television company specializing in the broadcast of movies, and S-LCD, a joint-venture with Samsung Electronics Co., Ltd. for the manufacture of amorphous TFT LCD panels.

***Minority Interest in Income of Consolidated Subsidiaries***

In the fiscal year ended March 31, 2005, minority interest in income of consolidated subsidiaries decreased by 0.7 billion yen, or 30.6 percent, to 1.7 billion yen. This decrease was primarily due to the recording of minority interest at certain television and home entertainment subsidiaries in the Pictures segment in the previous fiscal year.

***Net Income***

Net income for the fiscal year ended March 31, 2005 increased by 75.3 billion yen, or 85.1 percent, to 163.8 billion yen compared with the previous fiscal year. This increase was the result primarily of the abovementioned increase in income before income taxes, a decrease in the effective tax rate, as well as an increase in equity in net income of affiliated companies. As a percentage of sales, net income increased from 1.2 percent to 2.3 percent. Return on stockholders' equity increased from 3.8 percent to 6.2 percent. (This

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ratio is calculated by dividing net income by the simple average of stockholders' equity at the end of the previous fiscal year and at the end of the fiscal year ended March 31, 2005.)

Basic net income per share was 175.90 yen compared with 95.97 yen in the previous fiscal year, and diluted net income per share was 158.07 yen compared with 87.00 yen in the previous fiscal year. Refer to Notes 2 and 21 of Notes to Consolidated Financial Statements.

**Operating Performance by Business Segment**

The following discussion is based on segment information. Sales and operating revenue in each business segment include intersegment transactions. Refer to Note 24 of Notes to Consolidated Financial Statements.

*Business Segment Information*

|                                    | <b>Fiscal Year Ended<br/>March 31</b> |             | <b>Percent<br/>change</b> |
|------------------------------------|---------------------------------------|-------------|---------------------------|
|                                    | <b>2004</b>                           | <b>2005</b> |                           |
|                                    | <b>(Yen in billions)</b>              |             |                           |
| <b>Sales and operating revenue</b> |                                       |             |                           |
| Electronics                        | 5,087.5                               | 5,066.8     | -0.4%                     |
| Game                               | 780.2                                 | 729.8       | -6.5                      |
| Pictures                           | 756.4                                 | 733.7       | -3.0                      |
| Financial Services                 | 593.5                                 | 560.6       | -5.6                      |
| All Other                          | 662.8                                 | 459.9       | -30.6                     |
| Elimination                        | (384.0)                               | (391.1)     |                           |
| Consolidated                       | 7,496.4                               | 7,159.6     | -4.5                      |

|  | <b>Fiscal Year Ended<br/>March 31</b> |             | <b>Percent<br/>change</b> |
|--|---------------------------------------|-------------|---------------------------|
|  | <b>2004</b>                           | <b>2005</b> |                           |
|  | <b>(Yen in billions)</b>              |             |                           |
| <b>Operating income (loss)</b>                 |                                       |             |                           |
| Electronics                                    | (8.1)                                 | (34.3)      |                           |
| Game   | 67.6                                  | 43.2        | -36.1%                    |
| Pictures                                       | 35.2                                  | 63.9        | +81.4                     |
| Financial Services                             | 55.2                                  | 55.5        | +0.6                      |
| All Other                                      | (16.2)                                | 4.2         |                           |
| Total  | 133.7                                 | 132.5       | -0.9                      |
| Elimination and unallocated corporate expenses | (34.8)                                | (18.6)      |                           |
| Consolidated                                   | 98.9                                  | 113.9       | +15.2                     |



As of August 1, 2004, Sony and Bertelsmann AG combined their recorded music businesses in a joint venture. The newly formed company, SONY BMG, is 50 percent owned by each parent company. Under U.S. GAAP, SONY BMG is accounted for by Sony using the equity method and, since August 1, 2004, 50 percent of net profits or losses of this business have been included under Equity in net income (loss) of affiliated companies.

In connection with the establishment of this joint venture, Sony's non-Japan-based disc manufacturing and physical distribution businesses, formerly included within All Other, have been reclassified to the Electronics segment to recognize the new management reporting structure whereby Sony's Electronics segment has now assumed responsibility for these businesses. Effective April 1, 2005, a similar change was made with respect to Sony's Japan-based disc manufacturing business. Results for the fiscal years ended

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March 31, 2004 and March 31, 2005 in the Electronics segment have been restated to account for these reclassifications.

Effective April 1, 2005, Sony no longer breaks out its music business as a reportable segment as it no longer meets the materiality threshold. Accordingly, the results for Sony's music business are now included within All Other and the results for the fiscal year ended March 31, 2004 and March 31, 2005 have been reclassified to All Other for comparative purposes. Results for the fiscal year ended March 31, 2005 in All Other include the consolidated results for SMEI's recorded music business for the period through August 1, 2004, as well as the results for SMEI's music publishing business and SMEJ excluding Sony's Japan-based disc manufacturing business. However, results for the fiscal year ended March 31, 2004 include the consolidated results for SMEI's recorded music business for the full twelve month period, as well as the results for SMEI's music publishing business and SMEJ excluding Sony's Japan-based disc manufacturing business.

In July 2004, Sony completed the integration of its semiconductor manufacturing business in order to establish a more efficient and coordinated semiconductor supply structure by transferring Sony Computer Entertainment's semiconductor manufacturing operation from the Game segment to the Electronics segment. As a result of this transfer, sales revenue and expenditures associated with this operation are now recorded within the Semiconductor category in the Electronics segment. The results for the same period of the prior fiscal years have not been restated as such comparable figures cannot be practically obtained given that the semiconductor manufacturing operation was not operated as a separate line of business within the Game segment. This integration of the semiconductor manufacturing businesses is a part of Sony's semiconductor strategy of utilizing semiconductor technologies and manufacturing equipment originally developed or designed for the Game business within Sony as a whole.

**Electronics**

Sales for the fiscal year ended March 31, 2005 decreased 20.6 billion yen, or 0.4 percent, to 5,066.8 billion yen compared with the previous fiscal year. An operating loss of 34.3 billion in the Electronics segment was recorded compared to the operating loss of 8.1 billion yen in the previous fiscal year. Sales to outside customers on a yen basis decreased 1.1 percent compared to the previous fiscal year. Regarding sales to outside customers by geographical area, although sales decreased in Japan by 10 percent and in the U.S. by 4 percent, they remained almost unchanged in Europe and increased by 9 percent in non-Japan Asia and other geographic areas ( Other Areas ).

In Japan, although there was a significant increase in the sales of LCD televisions, and an increase in the sales of DVD recorders (including PSX), there was a decrease in the sales of PCs, mobile phones, primarily to Sony Ericsson, broadcast- and professional-use equipment and CRT televisions. In the U.S., there was an increase in sales of LCD rear projection televisions and digital cameras, although sales mainly of CRT televisions, PCs, computer displays and portable audio declined. In Europe, sales increased, primarily of digital cameras, LCD televisions and plasma televisions. However, there was a decrease in the sales mainly of CRT televisions and portable audio. In Other Areas, sales mainly of digital cameras, CD-R/RW and DVD+/-R/RW drives and PCs increased while sales of primarily portable audio, optical pickups and home audio decreased.

**Performance by Product Category**

Sales and operating revenue by product category discussed below represent sales to outside customers, which do not include intersegment transactions. Refer to Note 24 of Notes to Consolidated Financial Statements.

Audio sales decreased by 103.6 billion yen, or 15.3 percent, to 571.9 billion yen. Sales of headphone stereos declined as a result of a significant decrease in the unit shipments of both CD format and MD format devices due to a shift in demand towards hard disc- and flash-based memory players. Worldwide shipments of CD format devices decreased by approximately 3.68 million units to approximately 7.28 million units and worldwide shipments of MD format devices decreased by approximately 1.44 million units to 1.92 million

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units. Sales of home audio declined primarily due to a contraction of the market. On the other hand, overall sales of car audio increased slightly due to strong sales in the European market and Other Areas.

Video sales increased by 87.0 billion yen, or 9.2 percent, to 1,036.3 billion yen. There was a growth in the sales of digital cameras outside of Japan and DVD recorders (including PSX) recorded a significant increase in sales worldwide. Worldwide shipments of digital cameras increased by approximately 4.0 million units to approximately 14.0 million units. Worldwide shipments of DVD recorders were approximately 650,000 units in the previous fiscal year but increased to approximately 1.7 million units in the fiscal year ended March 31, 2005. Worldwide shipments of home-use video cameras increased by approximately 750,000 units to approximately 7.35 million units, but overall sales remained almost unchanged, due to increased price competition. DVD-Video player sales decreased due to pricing pressure, although unit shipments increased by approximately 1.0 million units to approximately 9.5 million units.

Televisions sales increased by 36.6 billion yen, or 4.1 percent, to 921.2 billion yen. In addition to a significant increase in worldwide sales of LCD televisions, there was a significant increase in the sales of plasma televisions outside of Japan, particularly in Europe, and of projection televisions in the U.S. Worldwide shipments of LCD televisions increased by approximately 570,000 units, compared to the previous fiscal year, to approximately 1.0 million units; plasma television shipments increased by approximately 90,000 units to approximately 300,000 units; and projection televisions shipments increased by approximately 280,000 units to approximately 1.2 million units. On the other hand, although there was an increase in worldwide shipments of CRT televisions by approximately 100,000 units to approximately 9.5 million units, sales decreased significantly as a result of a fall in unit prices due to the continued shift in demand towards flat panel televisions. In addition, sales of computer displays also decreased worldwide.

Information and Communications sales decreased by 62.7 billion yen, or 7.1 percent, to 816.2 billion yen. Despite an increase in notebook PC sales due to strong sales outside Japan, overall sales decreased due to a decrease in sales of desktop PCs. Worldwide unit shipments of PCs increased approximately 100,000 units to approximately 3.3 million units. Sales of personal digital assistants decreased significantly due to a downsizing of the business. Sales of broadcast- and professional-use products decreased slightly compared to the previous fiscal year, despite recording increased sales outside Japan, as sales in Japan decreased as a result of the recording of higher sales, in the previous fiscal year, from the sale of equipment to two television stations which opened new broadcasting facilities.

Semiconductors sales decreased by 6.9 billion yen, or 2.7 percent, to 246.3 billion yen. The decrease was due to a decrease in sales of CCDs as the result of pricing pressures. Regarding LCDs, sales of low temperature polysilicon LCDs for mobile phones increased significantly.

Components sales decreased by 4.3 billion yen, or 0.7 percent, to 619.5 billion yen. The decrease was primarily due to a decrease in sales of CD-R/RW drives and optical pickups associated mainly with significant declines in unit prices. Sales of DVD+/-R/RW drives increased due to a production and sales alliance with a third party. Regarding lithium-ion batteries, sales for use in digital cameras and mobile phones increased.

Other sales increased by 1.8 billion yen, or 0.3 percent, to 595.2 billion yen. The increase resulted from increased sales at Sony's non-Japan-based disc manufacturing business. However, there was a slight decrease in sales of mobile phone handsets mainly to Sony Ericsson.

In the Electronics segment, cost of sales for the fiscal year ended March 31, 2005 increased by 131.5 billion yen, or 3.3 percent to 4,117.0 billion yen compared with the previous fiscal year. The cost of sales to sales ratio deteriorated by 2.9 percent to 81.8 percent compared to 78.9 percent in the previous fiscal year. Products that contributed to the deterioration in the cost of sales to sales ratio were CRT televisions and portable audio products, which both experienced a decrease in sales, and DVD recorders (including PSX) and video cameras, which were both impacted by falling unit prices. Restructuring charges recorded in cost of sales amounted to 9.6 billion yen, a decrease of 0.5 billion yen compared with the 10.1 billion yen recorded in the previous fiscal year. Research and development costs increased 2.4 billion yen, or 0.6 percent, from 431.0 billion yen in the previous fiscal year to 433.3 billion yen. Although there was an increase in research and development costs within the segment as a result of the transfer of semiconductor manufacturing operations



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from the Game segment to the Electronics segment in association with the business integration of Sony's semiconductor manufacturing operations, overall research and development costs within the segment only increased slightly as a result of the carrying out of a stringent process for the selection of research and development activities.

Selling, general and administrative expenses decreased by 119.2 billion yen, or 11.0 percent to 960.2 billion yen compared with the previous fiscal year. The primary reason for this decrease was a decrease in restructuring charges. Of the restructuring charges recorded in the Electronics segment, the amount recorded in selling, general and administrative expenses decreased by 71.4 billion yen from 125.0 billion yen in the previous fiscal year to 53.6 billion yen. Of the restructuring charges recorded in selling, general and administrative expenses, the amount recorded for headcount reductions, including reductions through the early retirement program, was 51.0 billion yen, a decrease of 63.3 billion yen compared with the previous fiscal year. On the other hand, royalty expenses increased 17.0 billion yen. The ratio of selling, general and administrative expenses to sales decreased 2.2 percentage points from the 21.2 percent recorded in the previous fiscal year to 19.0 percent.

Loss on sale, disposal or impairment of assets, net decreased 6.7 billion yen to 23.9 billion yen compared with the previous fiscal year. This amount includes 19.2 billion yen in restructuring charges, which includes 7.5 billion yen related to CRT and CRT televisions manufacturing facilities in Europe. The amount of restructuring charges included in loss on sale, disposal or impairment, net in the previous fiscal year was 10.6 billion yen.

An increased operating loss was recorded in the Electronics segment for the fiscal year ended March 31, 2005 due to a significant deterioration in the cost of sales ratio, as mentioned above. Regarding profit performance by product, excluding restructuring charges, semiconductors recorded an operating loss for the fiscal year, compared to the operating profit of the previous fiscal year. This loss was due to the recording, within the Electronics segment, of research and development costs related to system large scale integration ( LSI ) manufacturing, in particular the next generation processor chip, as a result of the integration of Sony's semiconductor manufacturing business operations within the Electronics segment mentioned above. These costs were previously recorded within the Game segment. CRT televisions and portable audio products recorded a loss for the fiscal year compared to the operating income recorded in the previous fiscal year. DVD recorders (including PSX) also experienced an increased operating loss. The operating income for video cameras also decreased.

On the other hand, results were positively affected by a decreased operating loss from personal digital assistants through the implementation of significant business downsizing, and a significant increase in operating income recorded for PCs and broadcast- and professional-use products.

***Manufacturing by Geographic Area***

Approximately 50 percent of the Electronics segment's total annual production during the fiscal year ended March 31, 2005 took place in Japan, including the production of digital cameras, video cameras, flat panel televisions, PCs, semiconductors and components such as batteries and Memory Sticks. Approximately 60 percent of the annual production in Japan was destined for other regions. China accounted for approximately 10 percent of total annual production, approximately 70 percent of which was destined for other regions. Asia, excluding Japan and China, accounted for slightly more than 10 percent of total annual production, with approximately 60 percent destined for Japan, the U.S. and Europe. The Americas and Europe together accounted for the remaining total annual production of slightly less than 30 percent, most of which was destined for local distribution and sale.

***Comparison of Results on a Local Currency Basis and Results on a Yen Basis***

In the Electronics segment, the negative effect of the appreciation of the yen against the U.S. dollar exceeded the positive effect of the appreciation of the Euro against the yen. Sales for the fiscal year ended March 31, 2005 decreased, on a yen basis, by 1.1 percent, but increased on a local currency basis by approximately 1 percent. In terms of operating performance, there was a deterioration in the operating loss

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compared to the previous fiscal year, but if calculated on a local currency basis, this operating loss was smaller compared to the actual results on a yen basis.

Sales to outside customers by geographic area on a yen basis decreased in Japan by 10 percent, and in the U.S. by 4 percent; however, sales in Europe remained relatively unchanged and sales increased in Other Areas by 9 percent. Sales on a local currency basis for regions outside Japan increased in the U.S. by 1 percent and in Other Areas by 13 percent, but decreased in Europe by 2 percent.

**Game**

Sales for the fiscal year ended March 31, 2005 decreased by 50.5 billion yen, or 6.5 percent, to 729.8 billion yen compared with the previous fiscal year. Operating income decreased by 24.4 billion yen, or 36.1 percent, to 43.2 billion yen compared with the previous fiscal year, and the operating income margin decreased from 8.7 percent to 5.9 percent.

Sales in the Game segment on a local currency basis decreased approximately 6 percent. In addition, on a local currency basis, operating income decreased approximately 45 percent compared to the previous fiscal year. By region, although sales increased in Japan, there was a decrease in sales in the U.S. and Europe.

Hardware sales declined. Although there was an increase in sales in Japan primarily associated with the launch of PSP in December 2004, there was a decline in hardware sales in the U.S. and Europe associated with a decline in unit sales, and strategic price reductions, of PS2. On the other hand, both unit sales and overall sales of software increased in Japan, the U.S. and Europe.

Total worldwide production shipments of hardware and software were as follows:

|  | <b>Fiscal Year Ended<br/>March 31</b> |             | <b>Cumulative as of<br/>March 31, 2005</b> |
|--|---------------------------------------|-------------|--|
|  | <b>2004</b>                           | <b>2005</b> |  |
|  | <b>(Million units)</b>                |             |  |
| <b>Total Production Shipments of Hardware*</b>     |                                       |             |  |
| PlayStation® + PS one                              | 3.31                                  | 2.77        | 102.49                                     |
| PlayStation 2                                      | 20.10                                 | 16.17       | 87.47                                      |
| PlayStation Portable                               |                                       | 2.97        | 2.97                                       |
| <b>Total Production Shipments of Software**/**</b> |                                       |             |  |
| PlayStation  | 32.00                                 | 10.00       | 959.00                                     |
| PlayStation 2                                      | 222.00                                | 252.00      | 824.00                                     |
| PlayStation Portable                               |                                       | 5.70        | 5.70                                       |

\* Production shipments of hardware and software are counted upon shipment of the products from manufacturing bases. Sales of such products are recognized when the products are delivered to customers.

\*\* Including those both from Sony and third parties under Sony licenses.

Operating income decreased compared with the previous fiscal year. Although there was an increase in software sales, the decrease in operating income was the result of a decrease in hardware sales coupled primarily with start up costs for the PSP. The cost of sales to sales ratio deteriorated as a result of costs associated with both the launch of the PSP and with the changeover to the new PS2 model. The ratio of selling, general and administrative expenses to sales compared to the previous fiscal year was relatively unchanged.

**Pictures**

Sales for the fiscal year ended March 31, 2005 decreased by 22.7 billion yen, or 3.0 percent, to 733.7 billion yen compared with the previous fiscal year. Operating income increased by 28.7 billion yen, or 81.4 percent, to 63.9 billion yen and the operating income margin increased from 4.7 percent to 8.7 percent. The results in the Pictures

segment consist of the results of SPE, a U.S.-based subsidiary.

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On a U.S. dollar basis, sales for the fiscal year in the Pictures segment increased approximately 1 percent and operating income increased by approximately 76 percent. Sales increased primarily due to higher worldwide home entertainment, international television syndication and worldwide theatrical revenues on films. Worldwide home entertainment and international television syndication revenues were higher as a result of the performance of films from the prior year release slate including *50 First Dates*, *Big Fish* and *Bad Boys 2*. For theatrical revenues, the success of the current year film slate, particularly *Spider-Man 2*, *Hitch* and *The Grudge*, more than offset the impact of releasing fewer films this fiscal year. Sales for the fiscal year release slate decreased 70 million U.S. dollars as compared to the previous fiscal year. However, sales in the fiscal year ended March 31, 2005 from the prior year release slate increased 304 million U.S. dollars as compared to sales in the previous fiscal year from the release slate for the fiscal year ended March 31, 2003. While benefiting from higher theatrical revenues, total fiscal year release slate revenues were lower due to the timing of the fiscal year's film slate's release in the home entertainment market. The higher sales from films were partially offset by a 248 million U.S. dollar decrease in sales resulting from the absence in the fiscal year ended March 31, 2005 of several transactions in the television business that occurred in the prior fiscal year. These included syndication sales of *King of Queens* and *Seinfeld* as well as the extension of a licensing agreement for *Wheel of Fortune*. Television sales in the fiscal year ended March 31, 2005 benefited from the highly successful DVD release of *Seinfeld*.

Operating income for the segment increased significantly, resulting in record operating income for the segment, due to the strong overall performance of the current fiscal year's film slate and the home entertainment and international television syndication carryover performance of the prior fiscal year's film slate noted above. Operating loss from the fiscal year release slate decreased 415 million U.S. dollars and operating income for the prior fiscal year's release slate increased 173 million U.S. dollars as compared to the prior fiscal year. *Spider-Man 2*'s worldwide success contributed substantially to this fiscal year's earnings, offset somewhat by the disappointing theatrical performance of *Spanglish*. Further improving operating income was a 38 million U.S. dollar decrease in restructuring charges. Partially offsetting these increases in operating income was the impact of the absence of the television transactions noted above, which reduced operating income by approximately 150 million U.S. dollars due primarily to the factors noted above for revenue.

As of March 31, 2005, unrecognized license fee revenue at SPE was approximately 1.3 billion U.S. dollars. SPE expects to record this amount in the future having entered into contracts with television broadcasters to provide those broadcasters with completed motion picture and television product. The license fee revenue will be recognized in the fiscal year that the product is available for broadcast.

**Financial Services**

Please note that the revenue and operating income at Sony Life, Sony Assurance and Sony Bank discussed below differ from the results that Sony Life, Sony Assurance and Sony Bank disclose on a Japanese statutory basis.

Financial Services revenue for the fiscal year ended March 31, 2005 decreased by 33.0 billion yen, or 5.6 percent, to 560.6 billion yen compared with the previous fiscal year. Operating income increased by 0.3 billion yen, or 0.6 percent, to 55.5 billion yen and the operating income margin increased to 9.9 percent compared with the 9.3 percent of the previous fiscal year.

At Sony Life, revenue decreased by 38.7 billion yen, or 7.5 percent, to 474.3 billion yen compared with the previous fiscal year. The main reasons for the decrease in revenue were a change in the method of recognizing insurance premiums received on certain products, as of the third quarter beginning October 1, 2003, from being recorded as revenues to being offset against the related provision for future insurance policy benefits, coupled with a small decrease in valuation gains in the current fiscal year compared to the previous fiscal year in which significant valuation gains were recorded against stock conversion rights from convertible bonds. Although there was a decrease in insurance premium revenue as a result of the above mentioned change in accounting method, there were increases in insurance-in-force at the end of the fiscal year compared to the end of the previous fiscal year. Operating income at Sony Life decreased by 2.2 billion yen or



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3.4 percent to 61.0 billion yen, mainly due to a decrease in valuation gains against stock conversion rights from convertible bonds, although this was partially offset by an increase in revenue from insurance premiums excluding the effect of the change in revenue recognition method noted above. In addition, the impact on operating income from the change in revenue recognition method noted above was slight.

At Sony Assurance, revenue increased due to higher insurance revenue brought about by an expansion in automobile insurance-in-force. Operating income increased due to an increase in insurance revenue, although there was a deterioration in the loss ratio (the ratio of insurance payouts to premiums).

At Sony Bank, which started operations in June 2001, revenue rose as there was an increase in interest revenue associated with an increase in the balance of assets from investing activities. Although revenue increased, an increase in operating expenses resulted in a relatively unchanged operating loss compared with the previous fiscal year.

At Sony Finance, a leasing and credit financing business subsidiary in Japan, revenue decreased due to a fall in leasing revenue. In terms of profitability, the operating loss decreased due to the recording of a loss, in the previous fiscal year ended March 31, 2004, from the lease of certain fixed assets to Crosswave Communications Inc ( Crosswave ), which commenced reorganization proceedings under the Corporate Reorganization Law of Japan during the same fiscal year.

**Condensed Statements of Income Separating Out the Financial Services Segment (Unaudited)**

The following schedule shows unaudited condensed statements of income for the Financial Services segment and all other segments excluding Financial Services as well as condensed consolidated statements of income. This presentation is not required under U.S. GAAP, which is used in Sony's consolidated financial statements. However, because the Financial Services segment is different in nature from Sony's other segments, Sony believes that a comparative presentation may be useful in understanding and analyzing Sony's consolidated financial statements.

Transactions between the Financial Services segment and all other segments excluding Financial Services are eliminated in the consolidated figures shown below.

**Condensed Statements of Income**

|  | <b>Fiscal Year Ended<br/>March 31</b> |             |
|--|---------------------------------------|-------------|
|  | <b>2004</b>                           | <b>2005</b> |
|  | <b>(Yen in millions)</b>              |             |
| <b>Financial Services</b>                                      |                                       |             |
| Financial service revenue                                      | 593,544                               | 560,557     |
| Financial service expenses                                     | 538,383                               | 505,067     |
| <b>Operating income</b>  | 55,161                                | 55,490      |
| Other income (expenses), net                                   | 1,958                                 | 10,204      |
| <b>Income before income taxes</b>                              | 57,119                                | 65,694      |
| Income taxes and other   | 22,975                                | 25,698      |
| <b>Income before cumulative effect of an accounting change</b> | 34,144                                | 39,996      |
| Cumulative effect of an accounting change                      |                                       | (4,713)     |
| <b>Net income</b>  | 34,144                                | 35,283      |



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|  | <b>Fiscal Year Ended<br/>March 31</b> |             |
|--|---------------------------------------|-------------|
|  | <b>2004</b>                           | <b>2005</b> |
|  | <b>(Yen in millions)</b>              |             |
| <b>Sony without Financial Services</b>                         |                                       |             |
| Net sales and operating revenue                                | 6,939,964                             | 6,632,728   |
| Costs and expenses   | 6,896,377                             | 6,575,354   |
| <b>Operating income</b>  | 43,587                                | 57,374      |
| Other income (expenses), net                                   | 52,746                                | 40,639      |
| <b>Income before income taxes</b>                              | 96,333                                | 98,013      |
| Income taxes and other   | 30,916                                | (37,043)    |
| <b>Income before cumulative effect of an accounting change</b> | 65,417                                | 135,056     |
| Cumulative effect of an accounting change                      | (2,117)                               |             |
| <b>Net income</b>  | 63,300                                | 135,056     |

|  | <b>Fiscal Year Ended<br/>March 31</b> |             |
|--|---------------------------------------|-------------|
|  | <b>2004</b>                           | <b>2005</b> |
|  | <b>(Yen in millions)</b>              |             |
| <b>Consolidated</b>  |                                       |             |
| Financial service revenue                                      | 565,752                               | 537,715     |
| Net sales and operating revenue                                | 6,930,639                             | 6,621,901   |
|  | 7,496,391                             | 7,159,616   |
| Costs and expenses   | 7,397,489                             | 7,045,697   |
| <b>Operating income</b>  | 98,902                                | 113,919     |
| Other income (expenses), net                                   | 45,165                                | 43,288      |
| <b>Income before income taxes</b>                              | 144,067                               | 157,207     |
| Income taxes and other   | 53,439                                | (11,344)    |
| <b>Income before cumulative effect of an accounting change</b> | 90,628                                | 168,551     |
| Cumulative effect of an accounting change                      | (2,117)                               | (4,713)     |
| <b>Net income</b>  | 88,511                                | 163,838     |

**All Other**

During the fiscal year ended March 31, 2005, sales within All Other were comprised mainly of sales from SMEJ; SMEI's recorded music business for the four months through August 1, 2004 prior to the establishment of SONY BMG; SMEI's music publishing business; SCN, an Internet-related service business subsidiary operating mainly in Japan; a retailer of imported general merchandise in Japan; an in-house facilities management business in Japan; and an advertising agency business in Japan. Results for the previous fiscal year in All Other include the consolidated results for SMEI's recorded music business for all twelve months, as well as the full year's results for SMEI's publishing business and SMEJ.

Sales for the fiscal year ended March 31, 2005 decreased by 202.9 billion yen, or 30.6 percent, to 459.9 billion yen, compared with the previous fiscal year. Of total segment sales, 82 percent were sales to outside customers. In terms of profit performance, operating income of 4.2 billion yen was recorded for All Other compared to the operating loss of 16.2 billion yen recorded in the previous fiscal year.

During the fiscal year, the significant sales decrease within All Other reflects the fact that, as noted above, the results for the twelve months of the previous fiscal year in All Other incorporated the results for SMEI's recorded music business.

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Sales at SMEJ increased 5.7 percent compared with the previous fiscal year mainly due to an increase in album and single sales. Best-selling albums and singles during the fiscal year included *musiQ* by ORANGE RANGE, *SENTIMENTALovers* by Ken Hirai and *PORNO GRAFFITTI BEST BLUE S* by Porno Graffitti.

Excluding sales recorded in Sony's music business, there was a decrease in sales within All Other. This was principally a result of a decrease in intersegment sales due to contract changes at a Japanese subsidiary involved in the advertising agency business.

Regarding profit performance within All Other, operating income was recorded compared to the operating loss in the previous fiscal year as a result of significantly increased operating income at SMEJ due mainly to the higher sales noted above and an improvement in the cost of sales ratio associated with strong sales of greatest hits albums, coupled with reduced fixed costs at network related businesses within Sony Corporation, and a gain from the sale of a retail and showroom building in Japan. Operating income was recorded despite the absence in the fiscal year ended March 31, 2005 of a 7.7 billion yen one-time gain recorded at a business operated by a U.S. subsidiary on the sale of rights related to a portion of the Sony Credit Card portfolio in the previous fiscal year.

***Foreign Exchange Fluctuations and Risk Hedging***

During the fiscal year ended March 31, 2005, the average value of the yen was 106.5 yen against the U.S. dollar, and 133.7 yen against the Euro, which was 5.2 percent higher against the U.S. dollar and 1.9 percent lower against the Euro, respectively, compared with the average of the previous fiscal year. Operating results on a local currency basis described in Overview and Operating Performance show results of sales and operating revenue and operating income obtained by applying the yen's monthly average exchange rate in the previous fiscal year to monthly local currency-denominated sales, cost of sales, and selling, general and administrative expenses for the fiscal year ended March 31, 2005, as if the value of the yen had remained constant.

In the Pictures segment, Sony translates into yen the U.S. dollar consolidated results of SPE (a U.S.-based operation that has worldwide subsidiaries). Therefore, analysis and discussion of certain portions of the operating results of SPE are specified as being on a U.S. dollar basis. Results on a local currency basis and results on a U.S. dollar basis are not on the same basis as Sony's consolidated financial statements and do not conform with U.S. GAAP. In addition, Sony does not believe that these measures are a substitute for U.S. GAAP measures. However, Sony believes that local currency basis results provide additional useful information to investors regarding operating performance.

In All Other, Sony consolidates the yen-translated results of SMEI (a U.S.-based operation that aggregates the results of its worldwide subsidiaries on a U.S. dollar basis) and the results of SMEJ (a Japan-based operation that aggregates the results of its operations in yen). In addition, in All Other, results for this fiscal year only include the results of SMEI's recorded music business for the months of April through July 2004, and the twelve month results for SMEI's music publishing business and SMEJ. However, results for the previous fiscal year in All Other include the consolidated results for SMEI's recorded music business for all twelve months, as well as the full year's results for SMEI's publishing business and SMEJ.

Sony's consolidated results are subject to foreign currency rate fluctuations mainly derived from the fact that the countries where manufacturing takes place may be different from those where such products are sold. In order to reduce the risk caused by such fluctuations, Sony employs derivatives, including foreign exchange forward contracts and foreign currency option contracts, in accordance with a consistent risk management strategy. Such derivatives are used primarily to mitigate the effect of foreign currency exchange rate fluctuations on cash flows generated by anticipated intercompany transactions and intercompany accounts receivable and payable denominated in foreign currencies.

Sony Global Treasury Services Plc (SGTS) in London provides integrated treasury services for Sony Corporation and its subsidiaries. Sony's policy is that Sony Corporation and all subsidiaries with foreign exchange exposures should enter into commitments with SGTS for hedging their exposures. Sony Corporation and most of its subsidiaries utilize SGTS for this purpose. The concentration of foreign exchange exposures at

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SGTS means that, in effect, SGTS hedges the net foreign exchange exposure of Sony Corporation and its subsidiaries. SGTS in turn enters into foreign exchange transactions with creditworthy third-party financial institutions. Most of the transactions are entered into against projected exposures before the actual export and import transactions take place. In general, SGTS hedges the projected exposures on average three months before the actual transactions take place. However, in certain cases SGTS partially hedges the projected exposures one month before the actual transactions take place when business requirements such as shorter production-sales cycle for certain products arise. Sony enters into foreign exchange transactions with financial institutions primarily for hedging purposes. Sony does not use these derivative financial instruments for trading or speculative purposes except for certain derivatives in the Financial Services segment utilized for portfolio investments.

To minimize the adverse effects of foreign exchange fluctuations on its financial results, particularly in the Electronics segment, Sony seeks, when appropriate, to localize material and parts procurement, design, and manufacturing operations in areas outside of Japan.

Changes in the fair value of derivatives designated as cash flow hedges, including foreign exchange forward contracts and foreign currency option contracts, are initially recorded in other comprehensive income and reclassified into earnings when the hedged transaction affects earnings. Foreign exchange forward contracts, foreign currency option contracts and other derivatives that do not qualify as hedges are marked-to-market with changes in value recognized in Other Income and Expenses. The notional amounts of foreign exchange forward contracts, currency option contracts purchased and currency option contracts written as of March 31, 2005 were 1,545.8 billion yen, 428.3 billion yen and 146.5 billion yen, respectively.

***Assets, Liabilities and Stockholders Equity*****Assets**

Total assets on March 31, 2006 increased by 1,108.7 billion yen, or 11.7 percent, to 10,607.8 billion yen, compared with the previous fiscal year-end. Total assets on March 31, 2006 in all segments excluding the Financial Services segment increased by 364.4 billion yen, or 6.0 percent, to 6,392.3 billion yen and total assets on March 31, 2006 in the Financial Services segment increased by 680.1 billion yen, or 17.5 percent, to 4,565.6 billion yen, compared with the previous fiscal year-end. Total assets on March 31, 2006 in all segments excluding the Financial Services segment would have increased by approximately 2 percent compared with the previous fiscal year-end if the value of the yen had remained the same on March 31, 2006 as it was on March 31, 2005.

***Current Assets***

Current assets on March 31, 2006 increased by 213.4 billion yen, or 6.0 percent, to 3,769.5 billion yen compared with the previous fiscal year-end. Current assets on March 31, 2006 in all segments excluding the Financial Services segment increased by 363.7 billion yen, or 14.0 percent, to 2,956.5 billion yen.

Cash and cash equivalents on March 31, 2006 in all segments excluding the Financial Services segment increased 65.7 billion yen, or 12.6 percent, to 585.5 billion yen compared with the previous fiscal year-end. This is primarily a result of an increase in cash equivalents in association with the issuance of straight bonds carried out by Sony Corporation and the initial public offering of SCN.

Notes and accounts receivable, trade (net of allowance for doubtful accounts and sales returns) on March 31, 2006 excluding the Financial Services segment increased 21.0 billion yen, or 2.2 percent, compared with the previous fiscal year-end to 973.7 billion yen.

Inventories on March 31, 2006 increased by 173.4 billion yen, or 27.5 percent, to 804.7 billion yen compared with the previous fiscal year-end. This increase was primarily a result of both increased semiconductor inventory, primarily for use in PS3, and LCD television inventory in the Electronics segment and increased inventory in the Game segment resulting from the world-wide full-scale introduction of the PSP platform. The inventory to cost of sales turnover ratio (based on the average of inventories at the end of each

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fiscal year and previous fiscal year) was 1.67 months compared to 1.56 months at the end of the previous fiscal year. Sony considers this level of inventory to be appropriate in the aggregate.

Current assets on March 31, 2006 in the Financial Services segment decreased by 138.7 billion yen, or 14.0 percent, to 851.5 billion yen, compared with the previous fiscal year-end. This decrease was primarily attributable to the fact that cash and cash equivalents were utilized for investments and advances.

***Investments and Advances***

Investments and advances on March 31, 2006 increased by 774.2 billion yen, or 28.2 percent, to 3,519.9 billion yen, compared with the previous fiscal year-end.

Investments and advances on March 31, 2006 in all segments excluding the Financial Services segment increased by 31.6 billion yen, or 7.1 percent, to 477.1 billion yen. This was primarily a result of an increase in investments and advances towards affiliated companies such as MGM Holdings, Inc.

Investments and advances on March 31, 2006 in the Financial Services segment increased by 749.8 billion yen, or 31.5 percent, to 3,128.7 billion yen, compared with the previous fiscal year-end. This increase was primarily due to investments mainly in Japanese fixed income securities resulting from an increase in insurance premiums at Sony Life, and an increase in mortgage loans at Sony Bank.

Also see Investments below.

***Property, Plant and Equipment (after deduction of accumulated depreciation)***

Property, plant and equipment on March 31, 2006 increased by 16.1 billion yen, or 1.2 percent, to 1,388.5 billion yen, compared with the previous fiscal year-end.

Property, plant and equipment on March 31, 2006 in all segments excluding the Financial Services segment increased by 17.3 billion yen, or 1.3 percent, to 1,351.1 billion yen, compared with the previous fiscal year-end.

Capital expenditures (part of the increase in property, plant and equipment) for the fiscal year ended March 31, 2006 increased by 27.5 billion yen, or 7.7 percent, to 384.3 billion yen compared with the previous fiscal year. Capital expenditures in the Electronics segment increased by 17.5 billion yen, or 5.6 percent, to 328.6 billion yen but decreased in the Game segment by 10.4 billion yen, or 55.3 percent, to 8.4 billion yen. Capital expenditures in the semiconductor business within the Electronics segment, including capital expenditures related to the Cell microprocessor, amounted to 140.0 billion yen. Capital expenditures in the Pictures segment increased by 4.3 billion yen, or 73.8 percent to 10.1 billion yen. In All Other, which includes Sony's consolidated music business, 4.2 billion yen of capital expenditures were recorded, compared to the 9.0 billion yen of capital expenditures recorded in the previous fiscal year.

Property, plant and equipment on March 31, 2006 in the Financial Services segment decreased by 1.1 billion yen, or 2.9 percent, to 37.4 billion yen compared with the previous fiscal year-end. Capital expenditures in the Financial Services segment increased by 0.6 billion yen, or 15.9 percent, to 4.5 billion yen.

***Other Assets***

Other assets on March 31, 2006 increased by 23.5 billion yen, or 1.5 percent, to 1,569.4 billion yen, compared with the previous fiscal year-end.

Other assets on March 31, 2006 in all segments excluding the Financial Services segment decreased by 129.6 billion yen to 1,059.8 billion yen.

Deferred tax assets on March 31, 2006 decreased by 61.6 billion yen, or 25.6 percent, to 178.8 billion yen compared with the previous fiscal year-end. This was due to the recording of additional valuation allowances against deferred tax assets by Sony Corporation and several of Sony's Japanese domestic and overseas consolidated subsidiaries, mainly within the Electronics segment due to continued losses recorded at these businesses.

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Other assets in the Financial Services segment on March 31, 2006 increased by 70.2 billion yen, or 14.7 percent, to 548.0 billion yen compared with the previous fiscal year-end.

**Liabilities**

Total current and long-term liabilities on March 31, 2006 increased by 761.9 billion yen, or 11.5 percent, to 7,366.8 billion yen compared with the previous fiscal year-end. Total current and long-term liabilities on March 31, 2006 in all segments excluding the Financial Services segment increased by 185.5 billion yen, or 5.5 percent, to 3,551.9 billion yen. Total current and long-term liabilities in the Financial Services segment on March 31, 2006 increased by 512.3 billion yen, or 14.8 percent, to 3,977.6 billion yen, compared with the previous fiscal year-end. Total current and long-term liabilities on March 31, 2006 in all segments excluding the Financial Services segment would have increased by approximately 2 percent compared with the previous fiscal year-end if the value of the yen had remained the same on March 31, 2006 as it was on March 31, 2005.

***Current Liabilities***

Current liabilities on March 31, 2006 increased by 390.9 billion yen, or 13.9 percent, to 3,200.2 billion yen compared with the previous fiscal year-end. Current liabilities on March 31, 2006 in all segments excluding the Financial Services segment increased by 191.8 billion yen, or 9.0 percent, to 2,329.3 billion yen.

Short-term borrowings and current portion of long-term debt on March 31, 2006 in all segments excluding the Financial Services segment increased 21.1 billion yen, or 10.3 percent, to 225.1 billion yen compared with the previous fiscal year-end. This was principally a result of an increase in the current portion of long-term debt.

Notes and accounts payable, trade on March 31, 2006 in all segments excluding the Financial Services segment increased by 3.1 billion yen, or 0.4 percent, to 804.4 billion yen compared with the previous fiscal year-end.

Current liabilities on March 31, 2006 in the Financial Services segment increased by 209.7 billion yen, or 29.6 percent, to 918.3 billion yen, mainly due to an increase in short-term borrowing and an increase in deposits from customers at Sony Bank.

***Long-term Liabilities***

Long-term liabilities on March 31, 2006 increased by 371.0 billion yen, or 9.8 percent, to 4,166.6 billion yen compared with the previous fiscal year-end.

Long-term liabilities on March 31, 2006 in all segments excluding the Financial Services segment decreased by 6.3 billion yen, or 0.5 percent, to 1,222.6 billion yen. In addition, Long-term debt on March 31, 2006 in all segments excluding the Financial Services segment increased 74.0 billion yen, or 11.8 percent, to 701.4 billion yen.

Long-term debt increased primarily due to the issuance of straight bonds in order to redeem bonds maturing during the fiscal years ending March 31, 2006 and March 31, 2007. Long-term liabilities decreased, as accrued pension and severance costs decreased by 169.3 billion yen, or 50.1 percent, to 168.8 billion yen, principally as a result of the transfer to the Japanese Government of the substitutional portion of Sony's Employee Pension Fund.

Long-term liabilities on March 31, 2006 in the Financial Services segment increased by 302.6 billion yen, or 11.0 percent, to 3,059.3 billion yen. This was due to an increase in insurance-in-force in the life insurance business which resulted in an increase in future insurance policy benefits and other of 280.0 billion yen, or 11.4 percent, to 2,744.3 billion yen.

***Total Interest-bearing Debt***

Total interest-bearing debt on March 31, 2006 increased by 192.0 billion yen, or 21.1 percent, to 1,101.2 billion yen, compared with the previous fiscal year-end. Total interest-bearing debt on March 31, 2006



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in all segments excluding the Financial Services segment increased by 95.1 billion yen, or 11.4 percent, to 926.5 billion yen.

**Stockholders' Equity**

Stockholders' equity on March 31, 2006 increased by 333.5 billion yen, or 11.6 percent, to 3,203.9 billion yen compared with the previous fiscal year-end. Retained earnings increased 96.6 billion yen compared with the previous fiscal year-end, and accumulated other comprehensive income (net of tax) was 156.4 billion yen. This was primarily due to comprehensive income of 140.5 billion yen arising from foreign currency translation adjustments in current fiscal year due to the depreciation of the yen against the U.S. dollar, partially offset by the recording of a change in accumulated other comprehensive income of 38.1 billion yen arising from unrealized gains on securities in the current fiscal year. The ratio of stockholders' equity to total assets remained unchanged at 30.2 percent compared to the previous fiscal year-end.

***Condensed Balance Sheets Separating Out the Financial Services Segment (Unaudited)***

The following schedule shows an unaudited condensed balance sheet for the Financial Services segment and all other segments excluding Financial Services as well as the condensed consolidated balance sheet. This presentation is not required under U.S. GAAP, which is used in Sony's consolidated financial statements. However, because the Financial Services segment is different in nature from Sony's other segments, Sony believes that a comparative presentation may be useful in understanding and analyzing Sony's consolidated

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financial statements. Transactions between the Financial Services segment and all other segments excluding Financial Services are eliminated in the consolidated figures shown below.

**Financial Services**

|   | <b>March 31</b>          |             |
|---|--------------------------|-------------|
|   | <b>2005</b>              | <b>2006</b> |
|   | <b>(Yen in millions)</b> |             |
| <b>ASSETS</b>                                   |                          |             |
| Current assets:                                 |                          |             |
| Cash and cash equivalents                       | 259,371                  | 117,630     |
| Marketable securities                           | 456,130                  | 532,895     |
| Notes and accounts receivable, trade            | 77,023                   | 17,236      |
| Other   | 197,667                  | 183,693     |
|   | 990,191                  | 851,454     |
| Investments and advances                        | 2,378,966                | 3,128,748   |
| Property, plant and equipment                   | 38,551                   | 37,422      |
| Other assets:                                   |                          |             |
| Deferred insurance acquisition costs            | 374,805                  | 383,156     |
| Other   | 103,004                  | 164,827     |
|   | 477,809                  | 547,983     |
|   | 3,885,517                | 4,565,607   |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>      |                          |             |
| Current liabilities:                            |                          |             |
| Short-term borrowings                           | 45,358                   | 136,723     |
| Notes and accounts payable, trade               | 7,099                    | 11,707      |
| Deposits from customers in the banking business | 546,718                  | 599,952     |
| Other   | 109,438                  | 169,956     |
|   | 708,613                  | 918,338     |
| Long-term liabilities:                          |                          |             |
| Long-term debt                                  | 135,750                  | 128,097     |
| Accrued pension and severance costs             | 14,362                   | 13,479      |
| Future insurance policy benefits and other      | 2,464,295                | 2,744,321   |
| Other   | 142,272                  | 173,354     |
|   | 2,756,679                | 3,059,251   |
| Minority interest in consolidated subsidiaries  | 5,476                    | 4,089       |
| Stockholders equity                             | 414,749                  | 583,929     |
|   | 3,885,517                | 4,565,607   |



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|  | <b>March 31</b>          |             |
|--|--------------------------|-------------|
|  | <b>2005</b>              | <b>2006</b> |
|  | <b>(Yen in millions)</b> |             |
| <b>ASSETS</b>                                  |                          |             |
| Current assets:                                |                          |             |
| Cash and cash equivalents                      | 519,732                  | 585,468     |
| Marketable securities                          | 4,072                    | 4,073       |
| Notes and accounts receivable, trade           | 952,692                  | 973,675     |
| Other  | 1,116,353                | 1,393,306   |
|  | 2,592,849                | 2,956,522   |
| Film costs                                     | 278,961                  | 360,372     |
| Investments and advances                       | 445,446                  | 477,089     |
| Investments in Financial Services, at cost     | 187,400                  | 187,400     |
| Property, plant and equipment                  | 1,333,848                | 1,351,125   |
| Other assets                                   | 1,189,398                | 1,059,786   |
|  | 6,027,902                | 6,392,294   |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>     |                          |             |
| Current liabilities:                           |                          |             |
| Short-term borrowings                          | 204,027                  | 225,082     |
| Notes and accounts payable, trade              | 801,252                  | 804,394     |
| Other  | 1,132,201                | 1,299,809   |
|  | 2,137,480                | 2,329,285   |
| Long-term liabilities:                         |                          |             |
| Long-term debt                                 | 627,367                  | 701,372     |
| Accrued pension and severance costs            | 338,040                  | 168,768     |
| Other  | 263,520                  | 352,457     |
|  | 1,228,927                | 1,222,597   |
| Minority interest in consolidated subsidiaries | 18,471                   | 32,623      |
| Stockholders equity                            | 2,643,024                | 2,807,789   |
|  | 6,027,902                | 6,392,294   |

**Table of Contents****Consolidated**

|   | <b>March 31</b>          |             |
|---|--------------------------|-------------|
|   | <b>2005</b>              | <b>2006</b> |
|   | <b>(Yen in millions)</b> |             |
| <b>ASSETS</b>                                   |                          |             |
| Current assets:                                 |                          |             |
| Cash and cash equivalents                       | 779,103                  | 703,098     |
| Marketable securities                           | 460,202                  | 536,968     |
| Notes and accounts receivable, trade            | 1,025,362                | 985,508     |
| Other   | 1,291,504                | 1,543,950   |
|   | 3,556,171                | 3,769,524   |
| Film costs                                      | 278,961                  | 360,372     |
| Investments and advances                        | 2,745,689                | 3,519,907   |
| Property, plant and equipment                   | 1,372,399                | 1,388,547   |
| Other assets:                                   |                          |             |
| Deferred insurance acquisition costs            | 374,805                  | 383,156     |
| Other   | 1,171,075                | 1,186,247   |
|   | 1,545,880                | 1,569,403   |
|   | 9,499,100                | 10,607,753  |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>      |                          |             |
| Current liabilities:                            |                          |             |
| Short-term borrowings                           | 230,266                  | 336,321     |
| Notes and accounts payable, trade               | 806,044                  | 813,332     |
| Deposits from customers in the banking business | 546,718                  | 599,952     |
| Other   | 1,226,340                | 1,450,623   |
|   | 2,809,368                | 3,200,228   |
| Long-term liabilities:                          |                          |             |
| Long-term debt                                  | 678,992                  | 764,898     |
| Accrued pension and severance costs             | 352,402                  | 182,247     |
| Future insurance policy benefits and other      | 2,464,295                | 2,744,321   |
| Other   | 299,858                  | 475,106     |
|   | 3,795,547                | 4,166,572   |
| Minority interest in consolidated subsidiaries  | 23,847                   | 37,101      |
| Stockholders equity                             | 2,870,338                | 3,203,852   |
|   | 9,499,100                | 10,607,753  |

***Investments***

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 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 issuer's credit condition, 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.

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In evaluating the factors for available-for-sale securities with readily determinable fair values, management 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 a period of up to six to twelve months). 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.

The assessment of whether a decline in the value of an investment is other-than-temporary is often judgmental in nature and involves certain assumptions and estimates concerning the expected operating results, business plans and future cash flows of the issuer of the security. Accordingly, it is possible that investments in Sony's portfolio that have had a decline in value that Sony currently believes to be temporary may be determined to be other-than-temporary in the future based on Sony's evaluation of additional information such as continued poor operating results, future broad declines in value of worldwide equity markets and the effect of world wide interest rate fluctuations. As a result, unrealized losses recorded for investments may be recognized into income in future periods.

The following table contains available for sale and held to maturity securities, breaking out the unrealized gains and losses by investment category.

|   | <b>March 31, 2006</b> |                            |                            |                              |
|---|-----------------------|----------------------------|----------------------------|------------------------------|
|   | <b>Cost</b>           | <b>Unrealized<br/>gain</b> | <b>Unrealized<br/>Loss</b> | <b>Fair Market<br/>Value</b> |
| <b>(Yen in Millions)</b>                |                       |                            |                            |                              |
| <b>Financial Services Business:</b>     |                       |                            |                            |                              |
| Available for sale                      |                       |                            |                            |                              |
| Debt securities                         |                       |                            |                            |                              |
| Sony Life                               | 2,062,410             | 10,702                     | (15,122)                   | 2,057,990                    |
| Other                                   | 453,926               | 6,285                      | (7,561)                    | 452,650                      |
| Equity securities                       |                       |                            |                            |                              |
| Sony Life                               | 155,878               | 112,230                    | (1,137)                    | 266,971                      |
| Other                                   | 9,323                 | 4,176                      | (33)                       | 13,466                       |
| Held to maturity                        |                       |                            |                            |                              |
| Debt securities                         |                       |                            |                            |                              |
| Sony Life                               |                       |                            |                            |                              |
| Other                                   | 33,189                | 132                        | (221)                      | 33,100                       |
| <b>Total Financial Services</b>         | <b>2,714,726</b>      | <b>133,525</b>             | <b>(24,074)</b>            | <b>2,824,177</b>             |
| <b>Non-Financial Services:</b>          |                       |                            |                            |                              |
| Available for sale securities           | 68,406                | 55,549                     | (546)                      | 123,409                      |
| Held to maturity securities             | 4                     |                            |                            | 4                            |
| <b>Total Non-Financial<br/>Services</b> | <b>68,410</b>         | <b>55,549</b>              | <b>(546)</b>               | <b>123,413</b>               |
| <b>Consolidated</b>                     | <b>2,783,136</b>      | <b>189,074</b>             | <b>(24,620)</b>            | <b>2,947,590</b>             |

The most significant portion of these unrealized losses relate to investments held by Sony Life. Sony Life principally invests in debt securities in various industries. Most securities were rated BBB or better by Standard & Poor's, Moody's or others. As of March 31, 2006, Sony Life had debt and equity securities which had gross unrealized losses of 15.1 billion yen and 1.1 billion yen, respectively. Of the unrealized loss amounts recorded by Sony Life, less than 1 percent relate to securities being in an unrealized loss position of greater than 12 months. These unrealized losses related to numerous investments, with no single investment being in a material unrealized loss position. In addition, there was no individual security with unrealized losses that met



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the test discussed above for impairment as the declines in value were observed to be small both in amounts and percentage, and therefore, the decline in value for those investments was still determined to be temporary in nature. The percentage of non-investment grade securities held by Sony Life represents approximately 1 percent of Sony Life's total investment portfolio, while the percentage of unrealized losses that relate to those non-investment grade securities was approximately 2 percent of Sony Life's total unrealized losses as of March 31, 2006.

For fixed maturity securities with unrecognized losses held by Sony Life as of March 31, 2006 (15.1 billion yen), maturity dates vary as follows:

|                |            |
|----------------|------------|
| Within 1 year: | 5 percent  |
| 1 to 5 years:  | 44 percent |
| 5 to 10 years: | 50 percent |

Sony also maintains long-term investment securities issued by a number of non-public companies. The aggregate carrying amount of the investments in non-public companies at March 31, 2006 was 59.6 billion yen. A non-public equity investment is valued at cost as fair value is not readily determinable. If the value is estimated to have declined and such decline is judged to be other than temporary, the impairment of the investment is recognized and the carrying value is reduced to its fair value.

For the fiscal years ended March 31, 2004, 2005 and 2006, total impairment losses were 16.7 billion yen, 4.2 billion yen and 4.0 billion yen of which 0.2 billion yen, 0.5 billion yen and 0.2 billion yen, respectively, were recorded by Sony Life in Financial Services revenue (refer to Financial Services under *Operating Performance by Business Segment* for the fiscal years ended March 31, 2006 and March 31, 2005). Impairment losses other than at Sony Life in each of the three fiscal years were reflected in non-operating expenses and primarily relate to the certain strategic investments in non-financial services businesses. These investments primarily relate to the certain strategic investments in Japan, the U.S. and Europe with which Sony has strategic relationships for the purposes of developing and marketing new technologies. The impairment losses were recorded for each of the three fiscal years as these companies failed to successfully develop and market such technology, the operating performance of the companies was more unfavorable than previously expected and the decline in fair value of these companies was judged as other-than-temporary. None of these impairment losses was individually material to Sony, except for the devaluation of securities explained in Other Income and Expenses for the fiscal years ended March 31, 2004.

Upon determination that the value of an investment is impaired, the value of the investment is written down to its fair value. For publicly traded investments, fair value is determined by the closing stock price as of the date on which the impairment determination is made. For non-public investments, fair value is determined through the use of such methodologies as discounted cash flows, valuation of recent financings and comparable valuations of similar companies. The impairment losses that were recorded in each of the three years related to the unique facts and circumstances of each individual investment and did not significantly impact other investments.

Sony Life and Sony Bank's investments constitute the majority of the investments in the Financial Services segment. Sony Life and Sony Bank account for approximately 82 percent and 16 percent of the investments of the Financial Services segment, respectively.

Sony Life's fundamental investment policy is to build an investment portfolio capable of ensuring stable mid- to long-term returns through the efficient investment of funds, taking into account both expected returns and investment risks and responding flexibly to changes in financial conditions and the investment environment, while maintaining a sound asset base. Moreover, as its fundamental stance towards Asset Liability Management (ALM), a method of managing interest rate fluctuation risk through the comprehensive identification of differences in duration and cash flows between assets and liabilities, Sony Life takes the distinct characteristics of liability into account in order to control price fluctuation risks and establish a portfolio that ensures a certain level of returns. Sony Life adjusts its investing style depending on changes in the investment environment, in the first half of the fiscal year ended March 31, 2006, when stock prices in Japan remained low, Sony Life invested mainly in convertible bonds, while in the second half of the fiscal year



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ended March 31, 2006, when interest rates in Japan started to trend upward, Sony Life invested mainly in long-term Japanese government bonds.

Sony Bank operates using a similar basic investment policy as Sony Life, taking expected returns and investment risks into account in order to disperse associated risks, and structuring its asset portfolio to ensure steady returns from investments. In addition, Sony Bank is careful to match the duration of its asset portfolio with the duration of liabilities resulting from customer deposits, in order to ensure that significant discrepancies do not occur. Government bonds and corporate bonds in yen or other currencies constitute a majority of Sony Bank's current portfolio. To safeguard its assets Sony Bank does not invest in equity securities but invests in various types of government and corporate bonds in many countries, companies and industries, to diversify associated risks. With respect to loans, Sony Bank mainly offers housing loans to individuals and does not have any corporate loan exposure.

**Contractual obligations, commitments, and contingent liabilities**

The following table summarizes Sony's contractual obligations and major commitments as of March 31, 2006. References to Note below represents a particular note within the Notes to Consolidated Financial Statements.

|  | <b>Payments Due by Period</b> |                             |                        |                        |                         |
|--|-------------------------------|-----------------------------|------------------------|------------------------|-------------------------|
|  | <b>Total</b>                  | <b>Less than<br/>1 Year</b> | <b>1 to<br/>3 Year</b> | <b>3 to<br/>5 Year</b> | <b>After<br/>5 Year</b> |
| <b>(Yen in millions)</b>   |                               |                             |                        |                        |                         |
| <b>Contractual Obligations and Major Commitments:*</b>   |                               |                             |                        |                        |                         |
| Long-term debt (Note 11)   |                               |                             |                        |                        |                         |
| Capital lease obligations<br>(Notes 8 and 11)  | <b>38,280</b>                 | 16,966                      | 12,642                 | 4,342                  | 4,330                   |
| Other long-term debt (Note 11)   | <b>920,173</b>                | 176,589                     | 306,063                | 172,851                | 264,670                 |
| Minimum rental payments required under<br>operating leases (Note 8)  | <b>195,537</b>                | 47,500                      | 61,244                 | 27,861                 | 58,932                  |
| Purchase commitments for property, plant<br>and equipment and other assets (Note 23)                               | <b>69,286</b>                 | 65,135                      | 4,124                  | 27                     |                         |
| Expected cost for the production or<br>purchase of films and television<br>programming or certain rights (Note 23) | <b>76,736</b>                 | 50,578                      | 25,926                 | 213                    | 19                      |
| Partnership program contract with<br>Fédération Internationale de Football<br>Association (Note 23)                | <b>34,639</b>                 | 3,875                       | 7,750                  | 8,660                  | 14,354                  |

\* The total amount of expected future pension payments is not included in the above table or the total amount of commitments outstanding at March 31, 2006 discussed below as such amount is not currently determinable. Sony expects to contribute approximately 33.0 billion yen to the Japanese pension plans and approximately 6.0 billion yen to the foreign pension plans during the fiscal year ending March 31, 2007 (Note 14).

\* The total unused portion of the line of credit extended under loan agreements in the Financial Services segment is not included in the above table or the amount of commitments outstanding at March 31, 2006 discussed below as it is not foreseeable how many loans will be executed. The total unused portion of the line of credit extended under these contracts was 326.7 billion yen as of March 31, 2006 (Note 23).

\* The 5 year Revolving Credit Agreement with Sony BMG, which matures on August 5, 2009 and provides for a base commitment of 300 million U.S. dollars and additional incremental borrowings of up to 150 million U.S. dollars, is

not included in the above table or the amount of commitments outstanding at March 31, 2006

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discussed below as such amount is not currently determinable. Sony's outstanding commitment under this Credit Agreement as of March 31, 2006 was 26.3 billion yen (Note 23).

The total amount of commitments outstanding at March 31, 2006 was 285.8 billion yen (Note 23). The commitments include major purchase obligations as shown above.

In the ordinary course of business, Sony makes commitments for the purchase of property, plant and equipment. As of March 31, 2006, such commitments outstanding were 69.3 billion yen.

A subsidiary in the Pictures segment has committed to fund a portion of the production cost of completed films and is responsible for all distribution and marketing expenses relating to these films under a distribution agreement with a third party. Further, certain subsidiaries in the Pictures segment have entered into agreements with creative talent for the development and production of films and television programming as well as agreements with third parties to acquire completed films, or certain rights therein. As of March 31, 2006, the total amount of the expected cost for the production or purchase of films and television programming or certain rights under the above commitments was 76.7 billion yen.

Sony Corporation has entered into a partnership program contract with Fédération Internationale de Football Association (FIFA). Through this program Sony Corporation will be able to exercise various rights as an official sponsor of FIFA events from 2007 to 2014. As of March 31, 2006, Sony Corporation was committed to make payments under such contract of 34.6 billion yen.

In order to fulfill its commitments, Sony will use cash generated by its operating activities, intra-group loans and borrowings from subsidiaries with excess funds to subsidiaries that are short of funds through its finance subsidiaries, and raise funds from the global capital markets and from banks when necessary.

The following table summarizes Sony's contingent liabilities as of March 31, 2006.

|  | <b>Total Amounts of<br/>Contingent Liabilities</b> |
|--|--|
|  | <b>(Yen in millions)</b>                           |
| <b>Contingent Liabilities: (Note 23)</b> |  |
| Loan guarantees to related parties       | 9,325  |
| Other                                    | 11,747   |
| <br>Total contingent liabilities         | <br>21,072   |

**Off-Balance Sheet Arrangements**

Sony has several off-balance sheet arrangements to provide liquidity, capital resources and/or credit risk support.

During the fiscal year ended March 31, 2005, Sony entered into new accounts receivable sales programs that provide for the accelerated receipt of up to 47.5 billion yen of eligible trade accounts receivable of Sony Corporation. Through these programs, Sony can sell receivables to special purpose entities owned and operated by banks. These transactions are accounted for as a sale in accordance with FAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, because Sony has relinquished control of the receivables. Accordingly, accounts receivable sold under these transactions are excluded from receivables in the accompanying consolidated balance sheet. The initial sale of these receivables was in March 2005, and Sony sold a total of 10.0 billion yen for the fiscal year ended March 31, 2005. Sony sold a total of 146.2 billion yen of receivables during the fiscal year ended March 31, 2006. Losses from these transactions were insignificant. Although Sony continues servicing the sold receivables, no servicing liabilities are recorded because costs regarding collection of the sold receivables are insignificant.

Through May 2005, Sony had set up an accounts receivable securitization program in the United States that provided for the accelerated receipt of up to 500 million U.S. dollars of cash on eligible trade accounts receivable of Sony's U.S. electronics subsidiary. Through this program, Sony could securitize and sell a percentage of an undivided

interest in that pool of receivables to several multi-seller commercial paper

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conduits owned and operated by a bank. These securitization transactions were accounted for as a sale in accordance with FAS No. 140, because Sony had relinquished control of the receivables. Accordingly, accounts receivable sold under these transactions were excluded from receivables in the accompanying consolidated balance sheet. During the period from April 2004 to January 2005, Sony sold a total of 80.3 billion yen of accounts receivable under this program. There were no outstanding amounts due at March 31, 2005 relating to the existing undivided interests in the pool of receivables that had been sold. Losses from these transactions were insignificant. This program was terminated in May 2005.

Refer to Note 6 of Notes to Consolidated Financial Statements for more information on the accounts receivable securitization.

In addition, a subsidiary in the Picture segment entered into a production/co-financing agreement with a Variable Interest Entity ( VIE ) on December 30, 2005, to co-finance 11 films scheduled to be released over the following 15 months. The subsidiary is not the primary beneficiary of the VIE and therefore does not consolidate the results of the VIE. Under the production/co-financing agreement, the subsidiary will receive approximately 400 million U.S. dollars over the term of 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 of the films after the subsidiary recoups a distribution fee, its marketing and distribution expenses, and third party participation and residual costs. As of March 31, 2006, only one co-financed film has been released by the subsidiary. The subsidiary did not make any equity investment in the VIE nor does it issue any guarantees with respect to the VIE. In April 2006, the subsidiary entered into a second production/co-financing agreement with a VIE to co-finance an additional 11 films scheduled to be released over the following 24 months. The subsidiary will receive approximately 330 million U.S. dollars over the term of the agreement. Similar to the first 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 of the films after the subsidiary recoups a distribution fee, its marketing and distribution expenses, and third party participation and residual costs.

Sony has, from time to time, entered into various arrangements with VIEs. In several of the arrangements in which Sony holds a significant variable interest, Sony is the primary beneficiary and therefore consolidates these VIEs. These arrangements include facilities which provide for the leasing of certain property, the financing of film production, the implementation of a stock option plan for Japanese employees and the U.S.-based music publishing business. The assets and liabilities associated with certain of these arrangements previously qualified for off-balance sheet treatment. In addition, Sony holds a significant variable interest in VIEs in which Sony is not the primary beneficiary and therefore does not consolidate. These VIEs include the film production/co-financing arrangements noted above.

**Cash Flows**

(The fiscal year ended March 31, 2006 compared with the fiscal year ended March 31, 2005)

Operating Activities: During the fiscal year ended March 31, 2006, Sony generated 399.9 billion yen of net cash from operating activities, a decrease of 247.1 billion yen, or 38.2 percent compared with the previous fiscal year. Of this total, all segments excluding the Financial Services segment generated 252.0 billion yen of net cash from operating activities, a decrease of 233.5 billion yen, or 48.1 percent, compared with the previous fiscal year, and the Financial Services segment generated 147.1 billion yen of net cash from operating activities, a decrease of 20.9 billion yen, or 12.5 percent, compared with the previous fiscal year.

During the fiscal year, there was a positive impact on operating cash flow mainly from the effect of the profit contribution from the Financial Services segment, and after taking account of depreciation and amortization, as well as the effect of the loss on sale, disposal or impairment of assets, net. However, primarily offsetting these contributions was an increase in inventory, particularly within the Electronics and Game segments, the effect of the non-cash net gain on the transfer to the Japanese Government of the substitutional portion of the employee pension fund, an increase in deferred acquisition costs within the Financial Services segment and effect of the gain on change in interest in subsidiaries and equity investees.





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Compared with the previous fiscal year, net cash provided by operating activities decreased mainly as a result of taking into account the lower net income recorded during the fiscal year as compared to the previous fiscal year, and, as noted above, the increase in inventory during the fiscal year compared with the previous fiscal year, the effect of the gain on the transfer to the Japanese Government of the substitutional portion of the employee pension fund, and of the gain on change in interest in subsidiaries and equity investees.

**Investing Activities:** During the fiscal year, Sony used 871.3 billion yen of net cash in investing activities, an decrease of 59.9 billion yen, or 6.4 percent, compared with the previous fiscal year. Of this total, all segments excluding the Financial Services segment used 296.4 billion yen of net cash in investing activities, an decrease of 175.7 billion yen, or 37.2 percent, compared with the previous fiscal year, and the Financial Services segment used 563.8 billion yen in net cash, an increase of 142.4 billion yen, or 33.8 percent. During the fiscal year, purchases of fixed assets (capital expenditures) were made, primarily due to proactive capital expenditures in semiconductors mainly within the Electronics segment, mostly associated with image sensors.

Within the Financial Services segment, payments for investments and advances exceeded proceeds from maturities of marketable securities, sales of securities investments and collections of advances primarily as a result of investments in mainly Japanese fixed income securities resulting from an increase in insurance premiums at Sony Life, and an increase in the outstanding balance of mortgage loans at Sony Bank.

Compared with the previous fiscal year, net cash used in investing activities decreased, due primarily to the fact that in the previous fiscal year, investments were carried out principally in relation to S-LCD and in semiconductor fabrication equipment, particularly investments associated with the advanced microprocessor Cell On the other hand, within the Financial Services segment, net cash used in investing activities increased due to an increase in investments and advances compared to the previous fiscal year.

In all segments excluding the Financial Services segment, the difference between cash generated from operating activities and cash used in investing activities was a use of cash of 44.4 billion yen, as compared to the 13.3 billion yen of cash generated in the previous fiscal year.

**Financing Activities:** During the fiscal year ended March 31, 2006, 359.9 billion yen of net cash was provided by financing activities. Of the total, 74.6 billion yen of net cash was generated from financing activities in all segments excluding the Financial Services segment compared to a use of net cash in the previous fiscal year of 95.4 billion yen. This was a result of straight bonds issued in order to redeem bonds maturing during the fiscal years ended March 31, 2006 and March 31, 2007.

In the Financial Services segment, as a result of an increase in policyholder accounts at Sony Life, and an increase in deposits from customers, as well as call loan borrowings carried out at Sony Bank, 274.9 billion yen of net cash was generated by financing activities.

Accounting for all these factors and the effect of exchange rate changes, the total outstanding balance of cash and cash equivalents at the end of the fiscal year decreased by 76.0 billion yen, or 9.8 percent, to 703.1 billion yen, compared with the end of the previous fiscal year. The total outstanding balance of cash and cash equivalents of all segments excluding the Financial Services segment increased by 65.7 billion yen, or 12.6 percent, to 585.5 billion yen, and for the Financial Services segment, decreased by 141.7 billion, or 54.6 percent, to 117.6 billion yen, compared with the end of the previous fiscal year.

***Condensed Statements of Cash Flows Separating Out the Financial Services Segment (Unaudited)***

The following schedule shows unaudited condensed statements of cash flow for the Financial Services segment and all other segments excluding the Financial Services segment as well as condensed consolidated statements of cash flow. These presentations are not required under U.S. GAAP, which is used in Sony's consolidated financial statements. However, because the Financial Services segment is different in nature from Sony's other segments, Sony believes that a comparative presentation may be useful in understanding and analyzing Sony's consolidated financial statements. Transactions between the Financial Services segment and

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all other segments excluding the Financial Services segment are eliminated in the consolidated figures shown below.

**Condensed Statements of Cash Flows**

|   | <b>Fiscal Year Ended<br/>March 31</b> |             |
|---|---------------------------------------|-------------|
|   | <b>2005</b>                           | <b>2006</b> |
|   | <b>(Yen in millions)</b>              |             |
| <b>Financial Services</b>                                 |                                       |             |
| Net cash provided by operating activities                 | 168,078                               | 147,149     |
| Net cash used in investing activities                     | (421,384)                             | (563,753)   |
| Net cash provided by financing activities                 | 256,361                               | 274,863     |
| Net increase (decrease) in cash and cash equivalents      | 3,055                                 | (141,741)   |
| Cash and cash equivalents at beginning of the fiscal year | 256,316                               | 259,371     |
| Cash and cash equivalents at end of the fiscal year       | 259,371                               | 117,630     |

|  | <b>Fiscal Year Ended<br/>March 31</b> |             |
|--|---------------------------------------|-------------|
|  | <b>2005</b>                           | <b>2006</b> |
|  | <b>(Yen in millions)</b>              |             |
| <b>Sony without Financial Services</b>                       |                                       |             |
| Net cash provided by operating activities                    | 485,439                               | 251,975     |
| Net cash used in investing activities                        | (472,119)                             | (296,376)   |
| Net cash provided by (used in) financing activities          | (95,373)                              | 74,600      |
| Effect of exchange rate changes on cash and cash equivalents | 8,890                                 | 35,537      |
| Net increase (decrease) in cash and cash equivalents         | (73,163)                              | 65,736      |
| Cash and cash equivalents at beginning of the fiscal year    | 592,895                               | 519,732     |
| Cash and cash equivalents at end of the fiscal year          | 519,732                               | 585,468     |

|   | <b>Fiscal Year Ended<br/>March 31</b> |             |
|---|---------------------------------------|-------------|
|   | <b>2005</b>                           | <b>2006</b> |
|   | <b>(Yen in millions)</b>              |             |
| <b>Consolidated</b>                       |                                       |             |
| Net cash provided by operating activities | 646,997                               | 399,858     |
| Net cash used in investing activities     | (931,172)                             | (871,264)   |

|  |          |          |
|--|----------|----------|
| Net cash provided by financing activities                    | 205,177  | 359,864  |
| Effect of exchange rate changes on cash and cash equivalents | 8,890    | 35,537   |
| Net increase (decrease) in cash and cash equivalents         | (70,108) | (76,005) |
| Cash and cash equivalents at beginning of the fiscal year    | 849,211  | 779,103  |
| Cash and cash equivalents at end of the fiscal year          | 779,103  | 703,098  |

### Cash Flows

(The fiscal year ended March 31, 2005 compared with the fiscal year ended March 31, 2004)

Operating Activities: During the fiscal year ended March 31, 2005, Sony generated 647.0 billion yen of net cash from operating activities, a increase of 14.4 billion yen, or 2.3 percent compared with the previous fiscal year. Of this total, all segments excluding the Financial Services segment generated 485.4 billion yen of net cash from operating activities, a increase of 84.3 billion yen, or 21.0 percent, compared with the previous

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fiscal year, and the Financial Services segment generated 168.1 billion yen of net cash from operating activities, a decrease of 73.5 billion yen, or 30.4 percent, compared with the previous fiscal year.

During the fiscal year, in addition to profit contributions from the Pictures segment, Financial Services segment, Game segment and All Other and depreciation expenses, operating cash flow benefited from an increase in notes and accounts payable, trade, primarily associated with an increase in sales and procurement related primarily to the PSP within the Game segment during the fourth quarter of the fiscal year, a decrease in notes and accounts receivable, trade, associated with a sales decrease in the Pictures segment during the fourth quarter and within All Other associated with the decrease in sales after August 2004, and a decrease in inventory mainly within the Game and Electronics segments. Partially offsetting these contributions were factors including an increase in notes and accounts receivable, trade primarily within the Game segment. In addition, in the Financial Services segment, an increase in future insurance policy benefits and other, due to an increase in insurance-in-force, contributed to operating cash flow in the Financial Services segment.

Compared with the previous fiscal year, net cash provided by operating activities increased, due to a decrease in inventory during the fiscal year compared to an increase in inventory in the previous fiscal year, and there was a smaller increase in notes and accounts receivable, trade, compared with the previous fiscal year associated with the decrease in sales. These factors were partially offset by factors such as a smaller increase in notes and accounts payable, trade.

Investing Activities: During the fiscal year, Sony used 931.2 billion yen of net cash in investing activities, an increase of 169.4 billion yen, or 22.2 percent, compared with the previous fiscal year. Of this total, all segments excluding the Financial Services segment used 472.1 billion yen of net cash in investing activities, an increase of 119.6 billion yen, or 33.9 percent, compared with the previous fiscal year, and the Financial Services segment used 421.4 billion yen in net cash, an increase of 19.8 billion yen, or 4.9 percent.

During the fiscal year, purchases of fixed assets (capital expenditures) were made, primarily due to proactive capital expenditures in semiconductors mainly within the Electronics segment, mostly associated with system LSI including the advanced microprocessor Cell as well as investments associated with the establishment of the amorphous TFT LCD panel manufacturing joint venture S-LCD. Within the Financial Services segment, payments for investments and advances exceeded proceeds from maturities of marketable securities, sales of securities investments and collections of advances primarily as a result of investments in mainly Japanese fixed income securities resulting from an increase in insurance premiums at Sony Life, and a mortgage loan campaign carried out at Sony Bank.

Compared with the previous fiscal year, net cash used in investing activities increased, due primarily to investments associated with S-LCD. In all segments excluding the Financial Services segment, the amount of payments for investments and advances increased by 124.8 billion yen from 33.3 billion yen to 158.2 billion yen due to the abovementioned investments at S-LCD. On the other hand, in the Financial Services segment, net cash used in investing activities increased due to an increase in proceeds from investments and advances year on year.

In all segments excluding the Financial Services segment, the difference between cash generated from operating activities and cash used in investing activities was 13.3 billion yen for the fiscal year, a decrease of 35.3 billion yen, or 72.6 percent, compared with the previous fiscal year.

Financing Activities: During the fiscal year ended March 31, 2005, 205.2 billion yen of net cash was provided by financing activities. Of the total, 95.4 billion yen of net cash was used for financing activities in all segments excluding the Financial Services segment as a result of 89.7 billion yen being used for the repayment of long term debt and 23.0 billion yen in cash being used for the payment of dividends.

In the fiscal year ended March 31, 2005, net cash was used for financing activities compared to 153.8 billion yen of net cash procured in the previous fiscal year. This change was due mainly to the issuance of 250.0 billion yen in Euro yen convertible bonds (bonds with stock acquisition rights) within the previous fiscal year.

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In the Financial Services segment, as a result of a 294.4 billion yen increase in customer deposits due to factors such as an increase in insurance-in-force at Sony Life and an increase in deposits from customers at Sony Bank, 256.4 billion yen was procured by financing activities.

Accounting for all these factors and the effect of exchange rate changes, the total outstanding balance of cash and cash equivalents at the end of the fiscal year decreased by 70.1 billion yen, or 8.3 percent, to 779.1 billion yen, compared with the end of the previous fiscal year. The total outstanding balance of cash and cash equivalents of all segments excluding the Financial Services segment decreased by 73.2 billion yen, or 12.3 percent, to 519.7 billion yen, and for the Financial Services segment, increased by 3.1 billion, or 1.2 percent, to 259.4 billion yen, compared with the end of the previous fiscal year.

***Condensed Statements of Cash Flows Separating Out the Financial Services Segment (Unaudited)***

The following schedule shows unaudited condensed statements of cash flow for the Financial Services segment and all other segments excluding the Financial Services segment as well as condensed consolidated statements of cash flow. These presentations are not required under U.S. GAAP, which is used in Sony's consolidated financial statements. However, because the Financial Services segment is different in nature from Sony's other segments, Sony believes that a comparative presentation may be useful in understanding and analyzing Sony's consolidated financial statements. Transactions between the Financial Services segment and all other segments excluding the Financial Services segment are eliminated in the consolidated figures shown below.

**Condensed Statements of Cash Flows**

|   | <b>Fiscal Year Ended<br/>March 31</b> |             |
|---|---------------------------------------|-------------|
|   | <b>2004</b>                           | <b>2005</b> |
|   | <b>(Yen in millions)</b>              |             |
| <b>Financial Services</b>                                 |                                       |             |
| Net cash provided by operating activities                 | 241,627                               | 168,078     |
| Net cash used in investing activities                     | (401,550)                             | (421,384)   |
| Net cash provided by financing activities                 | 141,696                               | 256,361     |
| Net increase (decrease) in cash and cash equivalents      | (18,227)                              | 3,055       |
| Cash and cash equivalents at beginning of the fiscal year | 274,543                               | 256,316     |
| Cash and cash equivalents at end of the fiscal year       | 256,316                               | 259,371     |

|  | <b>Fiscal Year Ended<br/>March 31</b> |             |
|--|---------------------------------------|-------------|
|  | <b>2004</b>                           | <b>2005</b> |
|  | <b>(Yen in millions)</b>              |             |
| <b>Sony without Financial Services</b>                       |                                       |             |
| Net cash provided by operating activities                    | 401,090                               | 485,439     |
| Net cash used in investing activities                        | (352,496)                             | (472,119)   |
| Net cash provided by (used in) financing activities          | 153,759                               | (95,373)    |
| Effect of exchange rate changes on cash and cash equivalents | (47,973)                              | 8,890       |

|   |         |          |
|---|---------|----------|
| Net increase (decrease) in cash and cash equivalents      | 154,380 | (73,163) |
| Cash and cash equivalents at beginning of the fiscal year | 438,515 | 592,895  |
| Cash and cash equivalents at end of the fiscal year       | 592,895 | 519,732  |

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|  | <b>Fiscal Year Ended<br/>March 31</b> |             |
|--|---------------------------------------|-------------|
|  | <b>2004</b>                           | <b>2005</b> |
|  | <b>(Yen in millions)</b>              |             |
| <b>Consolidated</b>  |                                       |             |
| Net cash provided by operating activities                    | 632,635                               | 646,997     |
| Net cash used in investing activities                        | (761,792)                             | (931,172)   |
| Net cash provided by financing activities                    | 313,283                               | 205,177     |
| Effect of exchange rate changes on cash and cash equivalents | (47,973)                              | 8,890       |
| Net increase (decrease) in cash and cash equivalents         | 136,153                               | (70,108)    |
| Cash and cash equivalents at beginning of the fiscal year    | 713,058                               | 849,211     |
| Cash and cash equivalents at end of the fiscal year          | 849,211                               | 779,103     |

**LIQUIDITY AND CAPITAL RESOURCES**

Sony's financial policy is to secure adequate liquidity, to ensure the smooth financing of its operations and to maintain the strength of its balance sheet.

Sony intends to continue both structural reform and various investments for future growth. Sony believes that it can maintain sufficient liquidity and financial flexibility to satisfy its various capital needs, including funding requirements that arise from its business strategy, working capital needs, repayment of existing debt, payment of dividends and all its other capital needs, through cash flows and cash and cash equivalents, its ability to procure necessary funds from the financial and capital markets, its commitment lines with banks, and other means.

***Market Access***

Sony Corporation and SGTS, a finance subsidiary in the U.K., procure funds from the financial and capital markets.

In order to meet long-term funding requirements, Sony Corporation utilizes its access to global equity and bond markets. During the fiscal year ended March 31, 2006, based on a bond shelf registration filed in Japan, Sony issued three series of straight bonds totaling 120 billion yen in September 2005 for the purpose of debt redemption, and another three series of straight bonds totaling 100 billion yen in February 2006 for the redemption bonds maturing during the fiscal year ending March 31, 2007, respectively. As the total amount of shelf registrations outstanding decreased after these bond issues, Sony filed a new shelf registration of 300 billion yen in April 2006, which is effective for two years.

In order to meet the working capital requirements of Sony, SGTS maintains commercial paper ( CP ) programs and a medium-term note ( MTN ) program. SGTS maintains CP programs for the U.S., Euro and Japanese CP markets. As of March 31, 2006, the total amount of these CP programs was 1,321.9 billion yen. During the fiscal year ended March 31, 2006, the largest month-end outstanding balance of CP was 111.4 billion yen in September 2005. There was no outstanding balance of CP as of March 31, 2006.

SGTS maintains a Euro MTN program of whose amount as of March 31, 2006 was 587.1 billion yen. There was no outstanding balance as of March 31, 2006. Sony Capital Corporation ( SCC ), a Sony finance subsidiary in the U.S., had an outstanding MTN balance of approximately 58.7 billion yen as of March 31, 2006. However, Sony does not intend to utilize SCC's program for future financing requirements as SCC's financing function was integrated into that of SGTS.

***Liquidity Management***

Sony's working capital needs grow significantly in the third quarter (from October to December) as a result of the general seasonality to Sony's business. Sony's basic liquidity management policy is to secure sufficient liquidity throughout the relevant fiscal year, covering such factors as short-term cash flow volatility



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mentioned above, repayments for debts whose due date fall within a year, and possible downward earnings risk due to changes in the business environment.

Sony defines its liquidity sources as the amount of cash, cash equivalents ( cash balance ), and committed lines of credit contracted with financial institutions. Regarding its cash balance, Sony's policy is to maintain more than a certain level of cash balance to absorb any working capital needs daily and monthly. The balance of cash and marketable securities on March 31, 2006, was 589.5 billion yen. A short-term shortage in the cash balance is financed by the issuance of CP. However, Sony controls the outstanding CP amount through internal limits as part of its short-term debt risk management strategy. In the fiscal year ended March 31, 2006, there was no outstanding CP amount.

As part of its additional liquidity sources, Sony has a total of 683.4 billion yen in committed lines of credit with various financial institutions, of which the unused amount was 676.4 billion yen as of March 31, 2006. Major committed lines of credit include a total of 502.6 billion yen of Global Commitment Facilities contracted with a syndicate of global banks, and a 150 billion yen of committed line of credit contracted with Japanese financial institutions. During the fiscal year ended March 31, 2006, Sony reorganized the total amount and composition of terms to maturity of both facilities. With regards to the Global Commitment Facilities, as of March 31, 2005, Sony had two facilities consisting of a 5-year contract (amount as of March 31, 2005 is 459.4 billion yen, maturity March 2009) and a 364-day contract (amount as of March 31, 2005 is 114.9 billion yen) totaling 574.3 billion yen. During the fiscal year ended March 31, 2006, the 364-day portion was terminated. With regards to the committed line with Japanese financial institutions, as of March 31, 2005, Sony had two facilities consisting of a 100 billion yen 3-year contract and a 150 billion yen 364-day contract, totaling 250 billion yen. During the fiscal year ended March 31, 2006, upon expiry of the 3-year contract, Sony newly entered into a 150 billion yen 3-year contract (maturing in July 2008) while the 364-day contract was terminated. As a result, although the total amount of the facilities has been reduced by 185.3 billion yen compared with the fiscal year ended March 31, 2005, Sony believes it maintains long-term secured and sufficient liquidity. Sony uses these lines for general corporate purposes, including the support of CP programs and for emergency purposes. There are no financial covenants in any of Sony's material financial agreements that would cause an acceleration of the obligation in the event of a downgrade in Sony's credit ratings. However, a downgrade in Sony's credit ratings could increase the cost of borrowings. There are no restrictions on how Sony's borrowings can be used except that some borrowings may not be used to acquire securities listed on a U.S. exchange or traded over-the-counter in U.S., and use of such borrowings must comply with the rules and regulations issued by authorities such as the Board of Governors of the Federal Reserve Board.

***Ratings***

Sony considers it to be one of management's top priorities to maintain a stable and appropriate credit rating in order to ensure financial flexibility for liquidity and capital management, and to continue to maintain adequate access to sufficient funding resources in the financial and capital markets.

In order to facilitate access to global capital markets, Sony obtains credit ratings from two rating agencies, Moody's Investors Service ( Moody's ) and Standard and Poor's Rating Services ( S&P ). In addition, Sony maintains a rating from Rating and Investment Information, Inc. ( R&I ), a rating agency in Japan, for access to the Japanese capital market.

Sony's current debt ratings from each agency are noted below:

|                 | <b>Moody's</b>       | <b>S&amp;P</b>      | <b>R&amp;I</b>        |
|-----------------|----------------------|---------------------|-----------------------|
| Long-term debt  | A2 (Outlook: Stable) | A- Outlook: Stable) | AA- (Outlook: Stable) |
| Short-term debt | P-1                  | A-2                 | a-1+                  |

S&P downgraded Sony's long-term debt rating from A to A- and short-term debt rating from A-1 to A-2 in October 2005, R&I downgraded Sony's long-term debt rating from AA to AA- in November 2005 and Moody's downgraded Sony's long-term debt rating from A1 to A2 in December 2005, respectively. Sony's short-term debt rating from

Moody's and R&I have been unaffected. These downgrades of debt ratings

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reflected rating agencies concern mainly of low profitability in the Electronics segment and the low level of Sony's cash flows. The outlook after the downgrades of long-term debt ratings from the three agencies is stable. Despite these downgrades of debt ratings, Sony believes its access to the global capital markets and ability to issue CP for its working capital needs have not been restricted.

***Cash Management***

Sony is centralizing and working to make more efficient its global cash management activities through SGTS. The excess or shortage of cash at most of Sony's subsidiaries is invested or funded by SGTS after having been netted out, although Sony recognizes that fund transfers are limited in certain countries and geographical areas due to restrictions on capital transactions. In order to pursue more efficient cash management, Sony manages uneven cash distribution among its subsidiaries directly or indirectly through SGTS so that Sony can reduce unnecessary cash and cash equivalents as well as borrowings as much as possible.

The above description covers liquidity and capital resources for consolidated Sony excluding the Financial Services segment which secure liquidity on their own.

***Financial Services segment***

In the Financial Services segment, the management of SFH, Sony Life, Sony Assurance and Sony Bank recognize the importance of securing sufficient liquidity to cover the payment obligations that they take on as a result of their ordinary course of business, and these companies abide by the regulations imposed by regulatory authorities and establish and operate under company guidelines that comply with these regulations. Their purpose in doing so is to maintain sufficient cash and cash equivalents and secure sufficient means to pay their obligations. For instance, Sony Life's cash inflows come mainly from policyholders' insurance premiums and Sony Life keeps sufficient liquidity in the form of investments primarily in various securities. Sony Bank, on the other hand, uses its cash inflows, which come mainly from customers' deposits in local or foreign currencies, in order to offer mortgage loans to individuals or to make bond investments, and establish a necessary level of liquidity for the smooth settlement of transactions.

Sony Life currently obtains ratings from five rating agencies: A+ by S&P for long-term counterparty and insurer financial strength rating, Aa3 by Moody's for insurance financial strength rating, A+ by AM Best Company Inc. for financial strength rating, and AA by R&I for insurance claims paying ability and AA by the Japan Credit Rating Agency Ltd for ability to pay insurance claims. Sony Bank obtained an A-/A-2 rating from S&P for its long-term/short-term local/foreign currency issuer ratings.

**RESEARCH AND DEVELOPMENT**

In its mid-term corporate strategy announced on September 22, 2005, Sony stressed that the most pressing issue confronting the company today is the revitalization of its electronics business. The strengthening of the competitiveness of Sony's technologies and its products is an important element of both the revitalization of the Electronics business and the company's growth strategy, and Sony considers research and development activities that support this competitiveness will remain pivotal to its mid- to long term strategy.

Research and Development is focused in three key domains: a common development platform technology for home and mobile electronics; semiconductor and device technology essential for product differentiation and for creating added-value to products; and software technology.

Reflecting Sony's mid-term corporate strategy, in October 2005, the company established the Display Device Development Group, to accelerate the development of organic light-emitting diode (OLED) displays, and the Technology Development Group, to strengthen software development.

Moreover, Sony continues to strengthen the fundamental research and development structure at three of its corporate laboratories, Information Technology Laboratories (communication and security technologies), Material Laboratories (material and device technologies) and A3 Laboratories (signal processing technologies).

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Research and development costs for the fiscal year ended March 31, 2006 increased 29.8 billion yen, or 5.9 percent, to 531.8 billion yen, compared with the previous fiscal year. The ratio of research and development costs to net sales (which excludes Financial service revenue and other operating revenue) increased from 7.6 percent to 7.9 percent. The bulk of research and development costs were incurred in the Electronics and Game segments. Expenses in the Electronics segment decreased 15.2 billion yen, or 3.5 percent, to 418.1 billion yen, whereas expenses in the Game segment increased 40.2 billion yen, or 58.7 percent, to 108.7 billion yen. In the Electronics segment, approximately 64 percent of expenses were for the development of new product prototypes while the remaining 36 percent were for the development of mid- to long-term new technologies in such areas as semiconductors, communications, displays and next generation optical discs. In addition, within the Game segment, there was an increase primarily of hardware-related research and development costs associated with PS3.

Research and development costs for the fiscal year ended March 31, 2005 decreased 12.5 billion yen, or 2.4 percent, to 502.0 billion yen, compared with the previous fiscal year. The ratio of research and development costs to net sales increased from 7.5 percent to 7.6 percent. The bulk of research and development costs were incurred in the Electronics and Game segments. Expenses in the Electronics segment increased 2.4 billion yen, or 0.6 percent, to 433.3 billion yen, and expenses in the Game segment decreased 14.9 billion yen, or 17.9 percent, to 68.5 billion yen. In the Electronics segment, approximately 62 percent of expenses were for the development of new product prototypes while the remaining 38 percent were for the development of mid- to long-term new technologies in such areas as semiconductors, communications, displays and next generation optical discs. There was an increase in research and development costs related to semiconductor process technology associated with the transfer of Sony Computer Entertainment's semiconductor manufacturing operations from the Game segment to the Electronics segment. However, the stringent selection of research and development activities resulted in a small increase in research and development expenses within the Electronics segment. Research and development expenses in the Game segment remained high due to the research and development associated with PSP and PS3.

Research and development costs for the fiscal year ended March 31, 2004 were 514.5 billion yen. The bulk of research and development costs were incurred in the Electronics and Game segments; expenses in the Electronics segment were 431.0 billion yen, and expenses in the Game segment were 83.4 billion yen. In the Electronics segment, approximately 62 percent of expenses were for the development of new product prototypes while the remaining approximately 38 percent were for the development of mid- to long-term new technologies in such areas as semiconductors, communications, displays and next generation optical discs.

**TREND INFORMATION**

This section contains forward-looking statements about the possible future performance of Sony and should be read in light of the cautionary statement on that subject, which appears on the inside front cover page and which applies to this entire document.

***Issues Facing Sony and Management's Response to those Issues***

Competition in many of Sony's business segments continues to intensify and price erosion, especially in the Electronics segment, remains persistent. Competition has intensified due to the penetration of broadband, which has led to an augmentation of network infrastructure, making it easier for companies in other sectors to enter the markets in which Sony competes.

In response to these challenges, Sony has been undertaking initiatives to improve its competitiveness and strengthen the quality of its management, such as a reduction in the number of business categories and the number of models, a rationalization of manufacturing sites and the creation of a more efficient administrative structure, as well as the sale of non-core assets (See Restructuring in Item 5. *Operating and Financial Review and Prospects* for more detailed information about restructuring). This plan, developed in consultation with Sony's stakeholders both inside and outside the company, moved to strengthen Sony's competitiveness in three core sectors—Electronics, Game and Entertainment—through a balanced mix of restructuring and growth initiatives combined with a new organizational structure. In particular, it is the revitalization of

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Electronics that management regards as the most pressing issue confronting Sony today. As well as reorganizing its Electronics business to place centralized decision-making authority over key areas under the Electronics CEO, Sony is implementing reorganization initiatives to strengthen horizontal coordination in the key areas of product planning, technology, procurement, manufacturing, and sales and marketing. For Sony's growth strategy in Electronics, resources will be focused on the development and commercialization of high-definition products, mobile products and advanced semiconductors and other key devices that can further differentiate these products, targeting enhanced competitiveness and improved profitability.

In addition to this cost-cutting and investment for growth, each of Sony's business segments grappled with issues specific to that segment. Below is a description of the issues management believes each segment continues to face and an explanation as to how each segment is approaching those issues.

*Electronics*

Although the Electronics segment continues to hold a very strong position in the worldwide consumer audio visual products market, that position has become increasingly threatened as a result of the entrance of new manufacturers and distributors. These new entrants are threatening Sony's position due to the industry shift from analog to digital technology. In the analog era, complicated functionality of electronics products was made possible through the combination of several complex parts, and Sony held a competitive advantage in the design and manufacture of those parts as a result of its accumulated expertise. In the digital era, however, complicated functionality has become concentrated on semiconductors and other key digital devices. Since these semiconductors and key devices are able to be mass produced, they have become readily available to new market entrants, and the functionality that once commanded a high premium has become more affordable. This has led to intense price erosion in the consumer audio visual products market. To respond to these challenges, Sony is striving to keep pace with price erosion by reducing its manufacturing and other costs. It is seeking to maintain the premium pricing it enjoys on many of its end-user products by adding functionality to those products and developing new applications and ways of use that appeal to the consumer. In addition, it is taking steps to increase its competitive edge by developing high value-added semiconductors and other digital key devices in-house. By enhancing the in-house production of key devices, Sony aims to incorporate added-value into these key devices.

In the area of semiconductors, in the fiscal years ended March 31, 2005 and 2006, Sony carried out 150 billion yen and 140 billion yen, respectively, of capital expenditure mainly on system large scale integrations ( LSI ) and CCDs. These totals also include Sony's investment in semiconductor fabrication equipment built at the 65 nanometer process technology level. Chips that will be manufactured using this equipment will be some of the most highly advanced on the market, and will include system LSI, in particular the Cell microprocessor, for anticipated use in the next generation computer entertainment system, PS3, as well as digital consumer electronics products for the broadband era. Over the last five years, Sony, Sony Computer Entertainment, IBM Corporation ( IBM ) and Toshiba Corporation ( Toshiba ) have carried out joint development focused on 90 and 65 nanometer process technology for utilization in the design and manufacturing of the Cell microprocessor. Moreover, in 2006 Sony Corporation, IBM, and Toshiba concluded a new joint development agreement to begin a new 5-year alliance for the research and development of advanced semiconductor technology.

In the area of other key devices, S-LCD, Sony's joint venture with Samsung Electronics Co., Ltd. based in South Korea, started production of 7th generation amorphous TFT LCD panel (glass panel size: approximately 1,870mm × 2,200mm) in April 2005 and since October 2005 has been producing 60,000 sheets a month. In July 2006, S-LCD increased its production capacity to 75,000 panels a month, and further investment has been committed that will raise its production capacity to 90,000 panels at the start of calendar 2007. The total amount of these new investments, to be self-financed by S-LCD, is approximately 10 billion yen and approximately 28 billion yen, respectively.

In July 2006, Sony and Samsung signed the final contract regarding the manufacturing of 8th generation TFT LCD panels (glass panel size: approximately 2,200mm × 2,500mm) at the S-LCD joint venture. The total amount of the investment is expected to be approximately 1.9 billion U.S. dollars (approximately



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50 percent of which will be borne by Sony), targeting a production capacity of 50,000 panels a month from fall, 2007.

*Game*

In the Game segment, although it is anticipated that the size of the PS2 business, six years into its business cycle after its domestic launch in Japan in March 2000, will begin to contract, SCE will endeavor to maintain a continued high share of the global game console market for both PS2 hardware and software. Furthermore, through the addition of software and hardware system upgrades and new peripherals, which will work in tandem with PSP software to propose new ways of enjoying the handheld, SCE will promote further penetration of the platform. In addition, the new PS3 computer entertainment platform is scheduled to launch in November 2006. Through the provision of an appealing software line-up, SCE will promote the launch of the PS3 platform (See *Game* in *Operating Results for the Fiscal Year Ended March 31, 2006 compared with the Fiscal Year Ended March 31, 2005* within Item 5. *Operating and Financial Review and Prospects* for more detailed information regarding the impact of the PS3 launch).

*Pictures*

In the Pictures segment, Sony faces intense competition, rising advertising and promotion expenses and a growing trend toward digital piracy. In addition, the DVD format is nine years old and is showing signs of maturation. To meet these challenges, Sony is working to distribute a diversified portfolio of motion pictures with broad worldwide appeal on existing and new home entertainment formats, including Blu-ray, and on other emerging platforms, including digital download.

*Financial Services*

In the Financial Services segment, the value of assets accumulated by the businesses in the segment has grown continuously over the past several years, resulting in a large portion (approximately 43 percent) of Sony's total assets being accounted for by the Financial Services segment. To strengthen asset management and risk management in parallel with this growing asset value, enhance disclosure of business details, and offer customers integrated financial services tailored to their individual needs, in April 2004 Sony established Sony Financial Holdings Inc., a holding company overseeing Sony Life, Sony Assurance and Sony Bank, with the aim of both increasing the synergies between these businesses and targeting an initial public offering at some point in the fiscal year ending March 31, 2008 or subsequent fiscal year thereafter, as deemed appropriate by Sony after taking into account equity market conditions.

**CRITICAL ACCOUNTING POLICIES**

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, 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. On an ongoing basis, Sony evaluates its estimates which are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. The results of these evaluations form the basis for making judgments about the carrying values of assets and liabilities and the reported amounts of expenses that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions. Sony considers an accounting policy to be critical if it is important to its financial condition and results, and requires significant judgments and estimates on the part of management in its application. Sony believes that the following represent the critical accounting policies of the company.

*Investments*

Sony's investments are comprised of debt and equity securities accounted for under both the cost and equity method of accounting. If it has been determined that an investment has sustained an other-than-temporary decline in its value, the investment is written down to its fair value by a charge to earnings. Sony

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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 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 credit condition of the issuers, sovereign risk, and ability 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, management 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 a period of up to six to twelve months). This criteria 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.

The assessment of whether a decline in the value of an investment is other-than-temporary often requires management judgment based on evaluation of relevant factors. Those factors include business plans and future cash flows of the issuer of the security, the regulatory, economic or technological environment of the investee, and the general market condition of either the geographic area or the industry in which the investee operates. Accordingly, it is possible that investments in Sony's portfolio that have had a decline in value that are currently believed to be temporary may determine to be other-than-temporary in the future based on Sony's evaluation of additional information such as continued poor operating results, future broad declines in value of worldwide equity markets or circumstances in market interest rate fluctuations. As a result, unrealized losses recorded for investments may be recognized into income in future periods.

***Impairment of long-lived assets***

Sony reviews the carrying value of its long-lived assets held and used and long-lived assets to be disposed of whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. This review is performed using estimates of future cash flows by product category (e.g. CRT TV displays) or entity (e.g. semiconductor manufacturing division in the U.S.). If the carrying value of the asset is considered impaired, an impairment charge is recorded for the amount by which the carrying value of the asset exceeds its fair value. Fair value is determined using the present value of estimated net cash flows or comparable market values.

Management believes that the estimates of future cash flows and fair value are reasonable; however, changes in estimates resulting in lower future cash flows and fair value due to unforeseen changes in business assumptions could negatively affect the valuations of those long-lived assets.

In the fiscal year ended March 31, 2004, Sony recorded impairment charges for long-lived assets totaling 16.1 billion yen. It included 5.3 billion yen for the impairment of long-lived assets such as semiconductor and CRT TV display manufacturing equipment to be abandoned or sold in connection with certain restructuring activities in the Electronics segment. It also included 3.0 billion yen for the impairment of long-lived assets in the Music business such as a certain CD manufacturing facility to be abandoned or sold and a recording studio and equipment to be held and used in Japan. Fair value of these assets was determined using estimated future discounted cash flows which were based on the best information available.

In the fiscal year ended March 31, 2005, Sony recorded impairment charges for long-lived assets totaling 19.2 billion yen. It included 7.5 billion yen for the impairment of long-lived assets of CRT TV display manufacturing facilities to be held and used in Europe in connection with certain restructuring activities in the Electronics segment. Fair value of these assets was determined using estimated future discounted cash flows which were based on the best information available.



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In the fiscal year ended March 31, 2006, Sony recorded impairment charges for long-lived assets totaling 59.8 billion yen. It included 25.5 billion yen for the impairment of long-lived assets of CRT TV display manufacturing facilities to be held and used in the U.S. in connection with certain restructuring activities in the Electronics segment. Fair value of these assets was determined using estimated future discounted cash flows which were based on the best information available. The impairment charge also included 8.5 billion yen for the impairment of long-lived assets of the Metreon, an entertainment complex to be held for sale in the U.S. in connection with restructuring activities of non-core businesses in All Other. The impairment charge was based on the negotiated sales price of the complex.

***Goodwill and other intangible assets***

Goodwill and other intangible assets that are determined to have an indefinite life are not amortized, but are tested for impairment in accordance with FAS No. 142 during the fourth quarter of fiscal year on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of these assets below their carrying amount. Such an event would include unfavorable variances from established business plans, significant changes in forecasted results or volatility inherent to external markets and industries, which are periodically reviewed by management. Specifically, goodwill impairment is determined using a two-step process. The first step of the goodwill impairment test is used to identify potential impairment by comparing the fair value of a reporting unit (Sony's operating segments or one level below the operating segments) with its carrying amount, including goodwill. 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 unnecessary. 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. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. That is, the fair value of the reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit. Other intangible assets are tested for impairment by comparing the fair value of the intangible asset with its carrying value. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.

Determining the fair value of a reporting unit under the first step of the goodwill impairment test and determining the fair value of individual assets and liabilities of a reporting unit (including unrecognized intangible assets) under the second step of the goodwill impairment test is judgmental in nature and often involves the use of significant estimates and assumptions. Similarly, estimates and assumptions are used in determining the fair value of other intangible assets. These estimates and assumptions could significantly impact whether or not an impairment charge is recognized as well as the magnitude of any such charge. In its impairment review, Sony performs internal valuation analyses or utilizes third-party valuations when management believes it to be appropriate, and considers other market information that is publicly available. Estimates of fair value are primarily determined using 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 market comparables and the determination of whether a premium or discount should be applied to comparables. During the fourth quarter of the year ended March 31, 2006, Sony performed the annual impairment test for goodwill and recorded an impairment loss of 0.5 billion yen in a reporting unit in All Other. This impairment charge reflected the overall decline in the fair value of a subsidiary. The fair value of the subsidiary was estimated principally using the expected present value of future cash flows.

Management believes that the estimates of future cash flows and fair value are reasonable; however, changes in estimates resulting in lower future cash flows and fair value due to unforeseen changes in business assumptions could negatively affect the valuations, which may result in Sony recognizing impairment charges



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for goodwill and other intangible assets in the future. In order to evaluate the sensitivity of the fair value calculations on the impairment analysis, Sony applied a hypothetical 10 percent decrease to the fair value of each reporting unit. As of March 31, 2006, a 10 percent hypothetical decrease to the fair value of each reporting units would not have resulted in a material impairment loss.

***Pension benefits costs***

Employee pension benefit costs and obligations are dependent on certain assumptions including discount rates, retirement rates and mortality rates, which are based upon current statistical data, as well as expected long-term rates of return on plan assets and other factors. Specifically, the discount rate and expected long-term rate of return on assets are two critical assumptions in the determination of periodic pension costs and pension liabilities. Assumptions are evaluated at least annually, or at the time when events occur or circumstances change and these events or changes could have a significant effect on these critical assumptions. In accordance with U.S. GAAP, actual results that differ from the assumptions are accumulated and amortized over future periods. Therefore, actual results generally affect recognized costs and the recorded obligations for pensions in future periods. While management believes that the assumptions used are appropriate, differences in actual experience or changes in assumptions may affect Sony's pension obligations and future costs.

Sony's principal pension plans are its Japanese pension plans. Foreign pension plans are not significant individually with total assets and pension obligations amounting to less than 10 percent of those of the aggregate of the Japanese pension plans.

To determine the benefit obligation of the Japanese pension plans, Sony used a discount rate of 2.2 percent for its Japanese pension plans as of March 31, 2006. The discount rate was determined by using currently available information about rates of return on high-quality fixed-income investments available and expected to be available during the period to maturity of the pension benefit obligation in consideration of amounts and timing of cash outflows for expected benefit payments. Such available information about rates of returns is collected from Bloomberg and credit rating agencies. The 2.2 percent discount rate represents a 10 basis point decrease from the 2.3 percent discount rate used for fiscal year ended March 31, 2005. The reduction of the average duration of benefit payments in consideration of amounts and timing of cash outflows for expected benefit payments is mainly due to the fact that more retiring employees selected lump-sum amounts instead of monthly pension payments. For Japanese pension plans, a 10 basis point decrease in the discount rate would increase pension costs by approximately 0.8 billion yen for the fiscal year ending March 31, 2007.

To determine the expected long-term rate of return on pension plan assets, Sony considers the current and expected asset allocations, as well as historical and expected long-term rates of return on various categories of plan assets. For Japanese pension plans, the expected long-term rate of return on pension plan assets was 3.2 percent and 3.5 percent as of March 31, 2005 and 2006 respectively. The actual gain on pension plan assets for the fiscal year ended March 31, 2006 was 10.6 percent. Actual results that differ from the expected return on plan assets are accumulated and amortized as a component of pension costs over the average future service period, thereby reducing the year-to-year volatility in pension costs. As of March 31, 2005 and 2006, Sony had unrecognized actuarial losses of 322.2 billion yen and 169.9 billion yen, respectively, including losses related to plan assets. As a result of the transfer to the Japanese government of the substitutional portion, unrecognized actuarial losses related to the substitutional portion was recognized as a settlement loss. Therefore unrecognized actuarial losses were reduced. The unrecognized actuarial losses reflect the overall unfavorable return on investment over the past several years and will result in an increase in pension costs as they are recognized.

Sony recorded a liability for the unfunded accumulated benefit obligation for Japanese pension plans of 128.6 billion yen and 35.8 billion yen as of March 31, 2005 and 2006, respectively. This liability represents the excess of the accumulated benefit obligation under Sony's qualified defined benefit pension plans over the fair value of the plans' assets. This liability was established by a charge to stockholders' equity, resulting in no impact to the accompanying consolidated statements of income.

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The following table illustrates the sensitivity to a change in the discount rate and the expected return on pension plan assets, while holding all other assumptions constant, for Japanese pension plans as of March 31, 2006. As benefit obligation and plan assets decreased due to the transfer to the government of the substitutional portion, the sensitivity also decreased.

| <b>Change in Assumption</b>                                   | <b>Pre-Tax<br/>PBO</b>   | <b>Pension<br/>Costs</b> | <b>Equity<br/>(Net of Tax)</b> |
|---|--------------------------|--------------------------|--------------------------------|
|   | <b>(Yen in billions)</b> |                          |                                |
| 25 basis point increase/decrease in discount rate             | -/+24.7                  | -/+2.0                   | +/-1.2                         |
| 25 basis point increase/decrease in expected return on assets |                          | -/+1.2                   | +/-0.7                         |

***Deferred tax asset valuation***

Sony records a valuation allowance to reduce the deferred tax assets to an amount that management believes is more likely than not to be realized. In establishing the appropriate valuation allowance for deferred tax assets (including deferred tax assets on tax loss carry-forwards), all available evidence, both positive and negative, is considered. Information on historical results is supplemented by all currently available information on future years, because realization of deferred tax assets is dependent on whether each tax-filing unit generates sufficient taxable income. The estimates and assumptions used in determining future taxable income are consistent with those used in Sony's approved forecasts of future operations. Although realization is not assured, management believes it is more likely than not that all of the deferred tax assets, less valuation allowance, will be realized.

***Film accounting***

An aspect of film accounting that requires the exercise of judgment relates to the process of estimating the total revenues to be received throughout a film's life cycle. Such estimate of a film's ultimate revenue is important for two reasons. First, while a film is being produced and the related costs are being capitalized, it is necessary for management to estimate the ultimate revenue, less additional costs to be incurred, including exploitation costs which are expensed as incurred, in order to determine whether the value of a film has been impaired and thus requires an immediate write off of unrecoverable film costs. Second, the amount of film costs recognized as cost of sales for a given film as it is exhibited in various markets throughout its life cycle is based upon the proportion that current period actual revenues bear to the estimated ultimate total revenues.

Management bases its estimates of ultimate revenue for each film on several factors including the historical performance of similar genre films, the star power of the lead actors and actresses, the expected number of theaters at which the film will be released, anticipated performance in the home entertainment, television and other ancillary markets, and agreements for future sales. Management updates such estimates based on the actual results to date of each film. For example, a film that has resulted in lower than expected theatrical revenues in its initial weeks of release would generally have its theatrical, home entertainment and television distribution ultimate revenues adjusted downward; a failure to do so would result in the understatement of amortized film costs for the period. Since the total film cost to be amortized for a given film is fixed, the estimate of ultimate revenues impacts only the timing of film cost amortization.

***Future insurance policy benefits***

Liabilities for future insurance policy benefits are established in amounts adequate to meet the estimated future obligations of policies in force. These liabilities are computed by the net level premium method based upon estimates as to future investment yield, mortality, morbidity, withdrawals and other factors. Future policy benefits are computed using interest rates ranging from approximately 0.90 percent to 5.10 percent. Mortality, morbidity and withdrawal assumptions for all policies are based on either the life insurance subsidiary's own experience or various actuarial tables. Generally these assumptions are locked-in upon the issuance of new insurance. While management believes that the assumptions used are appropriate, differences in actual experience or changes in assumptions may affect Sony's future insurance policy benefits.



**Table of Contents****RECENTLY ADOPTED ACCOUNTING STANDARDS*****Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts***

In July 2003, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position ( SOP ) 03-1, Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts. SOP 03-1 requires insurance enterprises to record additional reserves for long-duration life insurance contracts with minimum guarantee or annuity receivable options. Additionally, SOP 03-1 provides guidance for the presentation of separate accounts. This statement is effective for fiscal years beginning after December 15, 2003. Sony adopted SOP 03-1 on April 1, 2004. As a result of the adoption of SOP 03-1, Sony's operating income decreased by 5.2 billion yen for the fiscal year ended March 31, 2005. Additionally, on April 1, 2004, Sony recorded a 4.7 billion yen charge (net of income taxes of 2.7 billion yen) as a cumulative effect of an accounting change.

***The Effect of Contingently Convertible Instruments on Diluted Earnings per Share***

In July 2004, the Emerging Issues Task Force ( EITF ) issued EITF Issue No. 04-8, The Effect of Contingently Convertible Instruments on Diluted Earnings per Share. In accordance with Statement of Financial Accounting Standards ( FAS ) No. 128, Earnings per Share, Sony had not previously included in the computation of diluted earnings per share ( EPS ) the number of potential common stock issuable upon the conversion of contingently convertible debt instruments ( Co-Cos ) that had not met the conditions to exercise the stock acquisition rights. EITF Issue No. 04-8 requires that the maximum number of common stock that could be issued upon the conversion of Co-Cos be included in diluted EPS computations from the date of issuance regardless of whether the conditions to exercise the stock acquisition rights have been met. EITF Issue No. 04-8 is effective for reporting periods ending after December 15, 2004. Sony adopted EITF Issue No. 04-8 during the quarter ended December 31, 2004. As a result of the adoption of EITF Issue No. 04-8, Sony's diluted EPS of income before cumulative effect of an accounting change and net income for the fiscal year ended March 31, 2004 were restated. Sony's diluted EPS of income before cumulative effect of an accounting change and net income for the fiscal year ended March 31, 2005 decreased by 7.26 yen and 7.06 yen, respectively, as a result of adopting EITF Issue No. 04-8.

***Consolidation of Variable Interest Entities***

In January 2003, the Financial Accounting Standards Board ( FASB ) issued FASB Interpretation ( FIN ) No. 46, Consolidation of Variable Interest Entities – an Interpretation of Accounting Research Bulletin ( ARB ) No. 51. FIN No. 46 addresses consolidation by a primary beneficiary of a variable interest entity ( VIE ). Sony early adopted the provisions of FIN No. 46 on July 1, 2003. As a result of adopting the original FIN No. 46, Sony recognized a one-time charge with no tax effect of 2.1 billion yen as a cumulative effect of accounting change in the consolidated statement of income, and Sony's assets and liabilities increased by 95.3 billion yen and 98.0 billion yen, respectively. These increases were treated as non-cash transactions in the consolidated statement of cash flows. In addition, cash and cash equivalents increased by 1.5 billion yen.

Sony subsequently early adopted the provisions of FIN No. 46 R, which replaced FIN No. 46, upon issuance in December 2003. The adoption of FIN No. 46R did not have an impact on Sony's results of operations and financial position or impact the way Sony had previously accounted for VIEs.

***Exchanges of Nonmonetary Assets***

In December 2004, the FASB issued FAS No. 153, Exchanges of Nonmonetary Assets, an amendment of Accounting Principle Board Opinion ( APB ) No. 29. This statement requires that exchanges of productive assets be accounted for at fair value unless fair value cannot be reasonably determined or the transaction lacks commercial substance. This statement is effective for nonmonetary asset exchanges that have occurred in the fiscal periods beginning after June 15, 2005. Sony adopted FAS No. 153 on July 1, 2005. The adoption of FAS No. 153 did not have a material impact on Sony's results of operations and financial position.

**Table of Contents*****Accounting for Conditional Asset Retirement Obligations***

In March 2005, the FASB issued FIN No. 47, *Accounting for Conditional Asset Retirement Obligations* an Interpretation of FAS No. 143. FIN No. 47 clarifies that an entity is required to recognize a liability for the fair value of a conditional retirement obligation when incurred if the liability's fair value can be reasonably estimated. FIN No. 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. This interpretation is effective no later than the end of fiscal years ending after December 15, 2005. Sony adopted FIN No. 47 on March 31, 2006. The adoption of FIN No. 47 did not have a material impact on Sony's results of operations and financial position.

***Determining Whether to Aggregate Operating Segments That Do Not Meet the Quantitative Thresholds***

In September 2004, the EITF issued EITF Issue No. 04-10, *Applying Paragraph 19 of FASB Statement No. 131, Disclosures about Segments of an Enterprise and Related Information, in Determining Whether to Aggregate Operating Segments That Do Not Meet the Quantitative Thresholds*. EITF Issue No. 04-10 clarifies how an enterprise should evaluate the aggregation criteria in paragraph 17 of FAS No. 131 when determining whether operating segments that do not meet the quantitative thresholds may be aggregated in accordance with paragraph 19 of FAS No. 131. EITF Issue No. 04-10 is effective for fiscal years ending after September 15, 2005. Sony adopted EITF Issue No. 04-10 during the fiscal year ended March 31, 2006. The adoption of EITF Issue No. 04-10 did not have an impact on Sony's results of operation and financial position.

**RECENT PRONOUNCEMENTS*****Accounting for Stock-Based Compensation***

In December 2004, the FASB issued FAS No. 123 (revised 2004), *Share-Based Payment* (FAS No. 123(R)). This statement requires the use of the fair value based method of accounting for employee stock-based compensation and eliminates the alternative use of the intrinsic value method prescribed by APB No. 25. With limited exceptions, FAS No. 123(R) requires that the grant-date fair value of share-based payments to employees be expensed over the period the service is received. Sony has accounted for its employee stock-based compensation in accordance with the provisions prescribed by APB No. 25 and its related interpretations and has disclosed the net effect on net income and net income per share allocated to the common stock if Sony had applied the fair value recognition provisions of FAS No. 123 to stock-based compensation as described in Note 2 of Notes to the Consolidated Financial Statements (2) Significant accounting policies—Stock-based compensation. Sony adopted FAS No. 123(R) on April 1, 2006. Sony has elected the modified prospective method of transition prescribed in FAS No. 123(R), which requires that compensation expense be recorded for all unvested stock acquisition rights as the requisite service is rendered beginning with the first period of adoption. As of March 31, 2006, the aggregate value of the unvested stock acquisition rights was 4.4 billion yen. Sony expects the total expenses to be recorded in the future periods will be consistent with the pro forma information shown in Note 2 of Notes to the Consolidated Financial Statements (2) Significant accounting policies—Stock-based compensation.

***Inventory Costs***

In November 2004, the FASB issued FAS No. 151, *Inventory Costs*, an amendment of ARB No. 43, Chapter 4. This statement requires certain abnormal expenditures to be recognized as expenses in the current period. It also requires that the amount of fixed production overhead allocated to the costs of conversion be based on the normal capacity of the production facilities. This statement shall be effective for fiscal years beginning after June 15, 2005, with early adoption during the fiscal years beginning after the date this statement is issued encouraged. The adoption of FAS No. 151 is not expected to have a material impact on Sony's results of operations and financial position.

**Table of Contents*****Derivative instruments and hedging activities***

In February 2006, the FASB issued FAS No. 155, *Accounting for Certain Hybrid Financial Instruments*, an amendment of FAS No. 133 and FAS No. 140. This statement permits an entity to elect fair value remeasurement for any hybrid financial instrument (with changes in fair value recognized in earnings) if the hybrid instrument contains an embedded derivative that would otherwise be required to be bifurcated and accounted for separately under FAS No. 133. The election to measure the hybrid instrument at fair value is made on an instrument-by-instrument basis and is irreversible. The statement will be effective for all financial instruments acquired, issued, or subject to a remeasurement event occurring after the beginning of an entity's fiscal years beginning after September 15, 2006, with earlier adoption permitted as of the beginning of fiscal year, provided that financial statements for any interim period of that fiscal year have not been issued. The adoption of FAS No. 155 is not expected to have a material impact on Sony's results of operations and financial position.

***Accounting for Servicing of Financial Assets***

In March 2006, the FASB issued FAS No. 156, *Accounting for Servicing of Financial Assets*—an amendment of FASB Statement No. 140. This statement amends FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* with respect to the accounting for separately recognized servicing assets and servicing liabilities. This statement shall be effective for fiscal years beginning after September 15, 2006. Sony is currently evaluating the impact of adopting this new pronouncement.

***Accounting for Uncertainty in Income Taxes***

In June 2006, the FASB issued FIN No. 48, *Accounting for Uncertainty in Income Taxes*, an interpretation of FASB Statement No. 109. FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FAS No. 109, *Accounting for Income Taxes*. FIN No. 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. Early application of the provisions of this Interpretation is encouraged if financial statements have not been issued, including interim financial statements, in the period this Interpretation is adopted. Sony is currently evaluating the impact of adopting this Interpretation.

***Item 6. Directors, Senior Management and Employees******Directors and Senior Management***

Set forth below are the current members of the Board of Directors and Corporate Executive Officers of Sony Corporation, their date of birth, the year in which they were first elected, their current position at Sony, prior positions, and other principal business activities outside Sony as of July 31, 2006.



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**Board of Directors**

**Sir Howard Stringer**

Date of Birth: February 19, 1942

Director (Member of the Board) Since: 1999

Corporate Executive Officer Since: 2003

Current Positions within Sony: Chairman and Chief Executive Officer, Representative Corporate Executive Officer Chairman and Chief Executive Officer, Sony Corporation of America  
Member of the Nominating Committee

Prior Positions:

2003 Vice Chairman, Chief Operating Officer in charge of Entertainment Business Group, Sony Corporation  
1999 Director, Sony Corporation  
1997 President, Sony Corporation of America  
1995 Chairman and Chief Executive Officer, TELE-TV  
1988 President, CBS Broadcast Group, CBS Inc.  
1986 President, CBS News

Principal Business Activities Outside Sony: Director of InterContinental Hotels Group

**Ryoji Chubachi**

Date of Birth: September 4, 1947

Director (Member of the Board) Since: 2005

Corporate Executive Officer Since: 2004

Current Positions within Sony: President, Representative Corporate Executive Officer, Electronics Chief Executive Officer  
Member of the Nominating Committee

Prior Positions:

2004 Chief Operating Officer in charge of Micro Systems Network Company ( MSNC ) and Engineering, Manufacturing and Customer Services ( EMCS ), President, Production Strategy Group, Sony Corporation Executive Deputy President, Corporate Executive Officer, Sony Corporation  
2003 Executive Vice President, Executive Officer, NC President, MSNC, Sony Corporation  
2002 NC President, Core Technology & Network Company ( CNC ), Sony Corporation  
2002 Corporate Senior Vice President, Sony Corporation  
1999 Corporate Vice President, President, Recording Media Company, CNC, Senior Vice President, CNC, Sony Corporation  
1977 Entered Sony Corporation

Principal Business Activities Outside Sony: None



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**Katsumi Ihara**

Date of Birth: September 24, 1950

Director (Member of the Board) Since: 2005

Corporate Executive Officer Since: 2004

Current Positions within Sony: Executive Deputy President, Representative Corporate Executive Officer Officer in charge of Procurement Strategies and TV & Video Business

Prior Positions:

|      |   |
|------|---|
| 2005 | NC President of Home Electronics Network Company, Sony Corporation  |
| 2004 | Executive Deputy President and Group Chief Strategy Officer & Group Chief Financial Officer, Sony Corporation |
| 2001 | Group Executive Officer, Sony Corporation President, Sony Ericsson Mobile Communications AB                   |
| 2000 | Corporate Senior Vice President, NC President, Personal IT Network Company, Sony Corporation                  |
| 1997 | Corporate Vice President, Sony Corporation  |
| 1996 | President, Home A&V Products Company, Sony Corporation  |
| 1981 | Entered Sony Corporation  |
| 1973 | Entered Mitsui Knowledge Industry Co., Ltd.   |

Principal Business Activities Outside Sony: None

**Akishige Okada**

Date of Birth: April 9, 1938

Outside Director (Member of the Board) Since: 2002

Current Position within Sony: Chairman of the Compensation Committee

|   |  |
|---|--|
| Principal Business Activities Outside Sony: | Advisor, Sumitomo Mitsui Banking Corporation |
|   | Director, Daicel Chemical Industries, Ltd.   |
|   | Director, Mitsui & Co., Ltd.                 |
|   | Auditor, Toyota Motor Corporation            |
|   | Auditor, Mitsui Fudosan Co., Ltd.            |

Prior Positions:

|      |  |
|------|--|
| 2002 | Chairman of the Board (Representative Director), Sumitomo Mitsui Financial Group, Inc. |
| 2001 | Chairman of the Board (Representative Director), Sumitomo Mitsui Banking Corporation   |

**Hirobumi Kawano**

Date of Birth: January 1, 1946

Outside Director (Member of the Board) Since: 2003

Current Position within Sony: Vice Chairman of the Board

Member of the Nominating Committee

Principal Business Activities Outside Sony: Senior Vice President, JFE Steel Corporation

Prior Positions:

|      |  |
|------|--|
| 1999 | Director-General, Agency for Natural Resources and Energy, Ministry of International Trade and Industry ( MITI ) (later renamed the Ministry of Economy, Trade and Industry) |
| 1998 | Director-General, Basic Industries Bureau, MITI  |

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|      |  |
|------|--|
| 1996 | Director-General, Machinery and Information Industries Policy, Machinery and Information Industries Bureau, MITI |
| 1995 | Director-General, Petroleum Department, Agency of Natural Resources and Energy, MITI                             |

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**Yotaro Kobayashi**

Date of Birth: April 25, 1933

Outside Director (Member of the Board) Since: 2003

Current Position within Sony: Chairman of the Board and Chairman of the Nominating Committee

Principal Business Activities Outside Sony: Chief Corporate Advisor, Fuji Xerox Co., Ltd.  
Director, Callaway Golf Company  
Director, Nippon Telegraph and Telephone Corporation

Prior Positions:

1999 Chairman of the Board, Fuji Xerox Co., Ltd.  
1992 Chairman and Chief Executive Officer, Fuji Xerox Co., Ltd.  
1987 Director, Xerox Corporation  
1978 President and Chief Executive Officer, Fuji Xerox Co., Ltd.

**Sakie T. Fukushima**

Date of Birth: September 10, 1949

Outside Director (Member of the Board) Since: 2003

Current Position within Sony: Member of the Audit Committee

Principal Business Activities Outside Sony: Representative Director & Regional Managing Director  
Japan, Korn/ Ferry International  
Member, Board of Directors, Korn/ Ferry International,  
U.S.A.  
Director, Benesse Corporation

Prior Position:

2000 Managing Director, Korn/ Ferry International Japan

**Yoshihiko Miyauchi**

Date of Birth: September 13, 1935

Outside Director (Member of the Board) Since: 2003

Current Position within Sony: Member of the Compensation Committee

Principal Business Activities Outside Sony: Director, Representative Executive Officer,  
Chairman and Chief Executive Officer, ORIX Corporation  
Director, Showa Shell Sekiyu K.K  
Director, Daikyo Incorporated Director, Sojitz Corporation  
Director, Access Co., Ltd.

Prior Positions:

2000 Representative Director, Chairman and Chief Executive Officer, ORIX Corporation  
1980 Representative Director, President, ORIX Corporation

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**Yoshiaki Yamauchi**

Date of Birth: June 30, 1937

Outside Director (Member of the Board) Since: 2003

Current Position within Sony: Chairman of the Audit Committee

Principal Business Activities Outside Sony: Director, Sumitomo Mitsui Financial Group, Inc.  
Director, Sumitomo Mitsui Banking Corporation  
Director, Amana Inc.  
Statutory Auditor, Stanley Electric Co., Ltd.  
Deputy President, ARI Research Institute

Prior Positions:

1999 Director, Sumitomo Banking Corporation  
1993 Executive Director, Asahi & Co.  
1991 President, Inoue Saito Eiwa Audit Corporation  
1986 President, Eiwa Audit Corporation  
Country Managing Partner Japan, Arthur Andersen & Co.

**Sir Peter Bonfield**

Date of Birth: June 3, 1944

Outside Director (Member of the Board) Since: 2005

Current Position within Sony: Member of the Nominating Committee

Principal Business Activities Outside Sony: Member of the Board, AstraZeneca plc, U.K.  
Member of Audit Committee and the Board,  
Telefonaktiebolaget LM Ericsson, Sweden  
Member of the Board, Mentor Graphics, Inc.  
Member of the Board and Chairman of Audit Committee,  
Taiwan Semiconductor Manufacturing Company Ltd.

Prior Positions:

1996 Chief Executive Officer, British Telecom plc  
1986 Chairman, ICL plc, U.K.  
1984 Managing Director, ICL plc, U.K.

**Fueo Sumita**

Date of Birth: May 24, 1938

Outside Director (Member of the Board) Since: 2005

Current Position within Sony: Member of the Audit Committee

Principal Business Activities Outside Sony: Chief of Sumita Accounting Office

Prior Positions:

2002 Executive Vice President, Kawada Corporation  
2001 Vice Chairman, Ernst & Young ShinNihon

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2000 Deputy Director, Ohta-Showa Century Audit Corporation  
1999 Chairman, Century Audit Corporation  
1985 Deputy General Manager, Corporate Accounting Dept., Hitachi, Ltd.



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**Fujio Cho**

Date of Birth: February 2, 1937

Outside Director (Member of the Board) Since: 2006

Current Position within Sony: Member of the Compensation Committee

Principal Business Activities Outside Sony: Chairman, Toyota Motor Corporation  
Director, Central Japan Railway Company  
Auditor, Denso Corporation

Prior Positions:  
1999 President, Toyota Motor Corporation

**Ned Lautenbach**

Date of Birth: February 2, 1944

Outside Director (Member of the Board) Since: 2006

Principal Business Activities Outside Sony: Operating Partner, Clayton, Dubilier & Rice, Inc.  
Member of the Board, Fidelity Investments  
Member of the Board, Eaton Corporation

Prior Positions:  
1998 Senior Vice President & Group Executive, IBM Worldwide Sales & Services, International Business Machines Corporation

**Göran Lindahl**

Date of Birth: April 28, 1945

Director (Member of the Board) Since: 2001

Current Position within Sony: Member of the Compensation Committee

Prior Positions:  
2003 Corporate Executive Officer, Sony Group Europe Representative, Chairman of Sony Group in Europe  
2001 Director, Sony Corporation  
1999 Director, Telefonaktiebolaget LM Ericsson, Sweden  
1997 President and Chief Executive Officer, Asea Brown Boveri Ltd., Switzerland  
1985 President, ASEA Transmission AB, Sweden  
1983 President, ASEA Transformers AB, Sweden

Principal Business Activities Outside Sony: Chairman and Chief Executive Officer, LivSafe AB, Sweden  
Chairman and Chief Executive Officer, LivSafe, Inc., U.S.A.  
Director, iGATE Corporation, U.S.A.  
Director, INGKA Holding B.V., Netherlands



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**Corporate Executive Officers**

In addition to Messrs. Stringer, Chubachi and Ihara, the four individuals set forth below are the current Corporate Executive Officers of Sony Corporation as of July 31, 2006. Refer to Board Practices below.

**Nobuyuki Oneda**

Date of Birth: May 6, 1945

Corporate Executive Officer Since: 2004

Current Positions within Sony: Executive Vice President and Chief Financial Officer

Prior Positions:

- 2004 Senior Vice President, Officer in charge of Corporate Planning & Control, Accounting and Information Systems, Sony Corporation
- 2003 Senior Vice President, Executive Officer, Sony Corporation
- 2002 Officer and Chief Financial Officer, Network Application & Content Service Sector, Sony Corporation
- 2000 Corporate Senior Vice President, Sony Corporation
- 2000 Deputy President and Chief Financial Officer, Sony Electronics Inc. Group Executive Officer, Sony Corporation
- 1999 Executive Vice President and Chief Financial Officer, Sony Electronics Inc. (a U.S. subsidiary of Sony Corporation)
- 1996 General Manager, Corporate Planning & Control Department, Sony Corporation
- 1969 Entered Sony Corporation

Principal Business Activities Outside Sony: None

**Keiji Kimura**

Date of Birth: April 4, 1952

Corporate Executive Officer Since: 2004

Current Positions within Sony: Executive Vice President, Officer in charge of Technology Strategies and Intellectual Property

Prior Positions:

- 2005 NC President, Information Technology & Communications Network Company, Sony Corporation
- 2004 Senior Executive Vice President, Corporate Executive Officer, Sony Corporation
- 2003 Senior Vice President, Executive Officer, Sony Corporation
- 2002 Corporate Senior Vice President, Sony Corporation
- 2001 NC President, Mobile Network Company, Sony Corporation
- 2000 Corporate Vice President, Sony Corporation
- 2000 NC President, Information Technology Company, Personal Network Company, Sony Corporation
- 1977 Entered Sony Corporation

Principal Business Activities Outside Sony: None

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**Nicole Seligman**

Date of Birth: October 25, 1956

Corporate Executive Officer Since: 2003

Current Positions within Sony: Executive Vice President and General Counsel  
Executive Vice President and General Counsel, Sony Corporation of America

Prior Positions:

2003 Group Deputy General Counsel, Sony Corporation  
2000 Entered Sony Corporation of America as Executive Vice President and General Counsel  
1992 Partner, Williams & Connolly LLP  
1985 Entered Williams & Connolly LLP  
1978 Associate Editorial Page Editor for The Asian Wall Street Journal, Hong Kong

Principal Business Activities Outside Sony: None

**Yutaka Nakagawa**

Date of Birth: December 4, 1945

Current Positions within Sony: Executive Vice President, Officer in charge of Products Strategies, Digital Imaging Business and Audio Business

Prior Positions:

2005 NC President, Personal Audio Visual Network Company, Sony Corporation  
2003 Deputy President, Micro Systems Network Company, President, Energy Company, MSNC, Sony Corporation  
1999 Corporate Senior Vice President, Sony Corporation  
1998 President, Personal and Mobile Communication Company, Sony Corporation  
1997 Corporate Vice President, Sony Corporation  
1992 General Manager, Camcorder Products Division, Personal Video Group, Sony Corporation  
1968 Entered Sony Corporation

Principal Business Activities Outside Sony: None

All of the aforementioned persons, with the exception of Messrs. Okada, Kawano, Kobayashi, Miyauchi, Yamauchi, Bonfield, Sumita, Lindahl, Cho, Lautenbach and Ms. Fukushima, are engaged on a full-time basis by Sony. There is no family relationship between any of the persons named above. There is no arrangement or understanding with major shareholders, customers, suppliers, or others pursuant to which any person named above was selected as a Director or a Corporate Executive Officer.

**Compensation**

The aggregate amount of remuneration, including bonuses paid and benefits in kind granted by Sony during the fiscal year ended March 31, 2006 to all Directors and Corporate Executive Officers (refer to Board Practices below) of Sony Corporation who served during the fiscal year ended March 31, 2006, as a group (29 people), totaled 2,666 million yen. Also, as a part of Sony's incentive compensation arrangements, Sony Corporation issued stock

acquisition rights during the fiscal year ended March 31, 2006. The stock acquisition rights, which represent rights to subscribe for shares of common stock of Sony Corporation, have been granted to the Directors, Corporate Executive Officers, Corporate Executives, Group Executives, and selected employees. The stock acquisition rights generally vest ratably up to three years from the date of grant and are generally exercisable up to ten years from the date of grant. The portion of those stock acquisition rights which was granted by Sony during the fiscal year ended March 31, 2006 to the Directors and Corporate Executive Officers confers rights to purchase a total number of 605,200 shares of Sony Corporation's Common Stock. The exercise price for these yen-denominated stock acquisition rights issued as of November 17, 2005 was

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4,060 yen per share, and the exercise price for these U.S. dollar-denominated stock acquisition rights issued as of November 17, 2005 was 34.14 U.S. dollars.

Regarding the above compensation plans, refer to Note 16 of Notes to Consolidated Financial Statements.

In the fiscal year ended March 31, 2006, the retirement allowance scheme was terminated and a new stock-based retirement remuneration (phantom restricted stock plan) was introduced. With the introduction of this plan, there was no amount accrued for lump-sum severance indemnities by Sony during the fiscal year ended March 31, 2006 for Directors and Corporate Executive Officers of Sony Corporation as of March 31, 2006, as a group (14 people).

Under this new plan, points fixed every year by the Compensation Committee shall be granted to Directors and Corporate Executive Officers every year during his/her tenure in office, and at the time of resignation, the remuneration amount shall be calculated by multiplying Sony's common stock price by accumulated points. The resigning Directors and Corporate Executive Officers shall purchase Sony's common stock with this remuneration. The aggregate number of points granted to Directors and Corporate Executive Officers of Sony Corporation as of March 31, 2006, as a group (14 people) totaled 27,900 points.

**Board Practices**

Sony has adopted a Company with Committees corporate governance system under the Japanese Company Law (Kaishaho) and related legislation (collectively the Company Law). Under this system, Sony Corporation has three committees: the Nominating Committee, the Audit Committee and the Compensation Committee. Under the Company Law, each committee is required to consist of not less than three Directors, the majority of whom must be outside Directors. Under the committee system, Directors as such have no power to execute the business of Sony Corporation except for limited circumstances as permitted by law. The Board of Directors must elect Corporate Executive Officers (Shikko-yaku), who are responsible for the execution of the business of Sony Corporation. A summary of the governance system adopted by Sony Corporation is set forth below.

The Board of Directors determines fundamental management policy and other important matters related to the management of Sony and oversees the performance of the duties of Directors and Corporate Executive Officers. Under the Company Law, all Directors must be elected at the General Meeting of Shareholders from the candidates determined by the Nominating Committee. Under the Company Law, the terms of office of Directors expire at the conclusion of the General Meeting of Shareholders held with respect to the last business year ending within one year after their election. Directors may serve any number of consecutive terms although, under the Charter of the Board of Directors of Sony Corporation, outside Directors may not be reelected more than five times without the consent of all Directors.

The Nominating Committee, which pursuant to the Charter of the Board of Directors of Sony Corporation consists of five or more Directors, determines the content of proposals to be submitted for approval at the General Meeting of Shareholders regarding the appointment and dismissal of Directors. As stated above, under the Company Law, a majority of the members of the Nominating Committee must be outside Directors. In order to qualify as an outside Director under the Company Law, a Director must be a person (i) who is not a director of Sony Corporation or any of its subsidiaries engaged in the business operations of Sony Corporation or such subsidiary, as the case may be, or a corporate executive officer or general manager or other employee of Sony Corporation or any of its subsidiaries, and (ii) who has never been a director of Sony Corporation or any of its subsidiaries engaged in the business operations of Sony Corporation or such subsidiary, as the case may be, or a corporate executive officer or general manager or other employee of Sony Corporation or any of its subsidiaries. Under the Charter of the Board of Directors of Sony Corporation, two or more members of the Nominating Committee must concurrently be Corporate Executive Officers. The Nominating Committee is composed of the following members as of July 31, 2006: Yotaro Kobayashi, who is the Chairman of the Nominating Committee and an outside Director; Hirobumi Kawano and Peter Bonfield who are outside Directors; and Howard Stringer and Ryoji Chubachi, who are Corporate Executive Officers.

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Under the Charter of the Board of Directors of Sony Corporation, the Audit Committee must consist of three or more Directors, a majority of whom, as stated above, must be outside Directors. In addition, under the Company Law, a member of the Audit Committee may not concurrently be a director of Sony Corporation or any of its subsidiaries who is engaged in the business operations of Sony Corporation or such subsidiary, as the case may be, or a corporate executive officer of Sony Corporation or any of its subsidiaries, or an accounting counselor, general manager or other employee of any of such subsidiaries. Further, under the Charter of the Board of Directors of Sony Corporation, members of the Audit Committee must meet the independence and other equivalent requirements of U.S. securities laws and regulations to the extent applicable to Sony Corporation. The Audit Committee's primary responsibility is to audit the consolidated and non-consolidated financial statements and business reports to be submitted by the Board of Directors at the General Meeting of Shareholders; to audit the performance of duties by Directors and Corporate Executive Officers (with regard to preparation process of financial statements, disclosure controls and procedures, internal controls, compliance structure, risk management structure, internal audit structure, internal hotline system and other matters), in each case pursuant to the Company Law; and to propose appointment/dismissal or non-reappointment of, approve the compensation of, and oversee and evaluate the work of Sony's independent auditors. Under the Company Law, the Audit Committee has a statutory duty to prepare and submit its audit report to the Corporate Executive Officer designated by the Board of Directors each year. A member of the Audit Committee may note his or her opinion in the audit report if it is different from the opinion of the Audit Committee that is expressed in the audit report.

The Audit Committee discusses with Sony Corporation's independent auditor, ChuoAoyama PricewaterhouseCoopers, the scope and results of audits by the independent auditor including their evaluation of Sony Corporation's internal controls, compatibility with Generally Accepted Accounting Principles in the U.S., and the overall quality of financial reporting. The Audit Committee makes an assessment of the independence of ChuoAoyama PricewaterhouseCoopers by overseeing their activities through regular communications and discussions with ChuoAoyama PricewaterhouseCoopers, and shall pre-approve audit and non-audit services to be provided. The Audit Committee is composed of the following members as of July 31, 2006: Yoshiaki Yamauchi, who is the Chairman of the Audit Committee and an outside Director; and Sakie T. Fukushima and Fueo Sumita, who are also outside Directors. Both Yoshiaki Yamauchi and Fueo Sumita are audit committee financial experts within the meaning of Item 16A of this report.

As required by the Company Law, the Compensation Committee determines the compensation, bonus and any other benefits (including equity-related rights or options given for the purpose of stock incentive options) to be received by each Director and Corporate Executive Officer in consideration of the execution of their duties. In addition to such statutory duties, the Compensation Committee sets policy on the composition of individual compensation to be received by other senior management of Sony Group (Directors or other officers of Sony Group companies whose appointment is subject to approval by the CEO of Sony Corporation), and also submits proposals to the Board of Directors regarding the issuance of stock acquisition rights for the purpose of granting stock options and other forms of stock price-based compensation utilizing shares etc. of Sony Group, as individual compensation to the aforementioned senior management. Under the Charter of the Board of Directors, the Compensation Committee shall consist of three or more Directors, and as a general rule, at least one member shall concurrently serve as Corporate Executive Officer; provided, however, that a Director who is the CEO (Chief Executive Officer), or the COO (Chief Operating Officer) of Sony Group or in any equivalent position shall not be a member of the Compensation Committee. As stated above, a majority of the members of the Compensation Committee must be outside Directors. The Compensation Committee is composed of the following members as of July 31, 2006: Akishige Okada, who is the Chairman of the Compensation Committee and an outside Director; and Yoshihiko Miyauchi and Fujio Cho, who are also outside Directors, and Göran Lindahl, who was a Corporate Executive Officer of Sony Group.

During the fiscal year ended March 31, 2006, the Board of Directors met 8 times. The Nominating Committee met 5 times, the Audit Committee 11 times and the Compensation Committee 7 times. In the fiscal year ended March 31, 2006, each incumbent Director attended at least 75 percent of the aggregate





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number of meetings of the Board and Committees on which he/she served (during the period that he/she served).

No Directors have service contracts with Sony providing for benefits upon termination of service as a Director.

Under the Company Law and the Articles of Incorporation of Sony Corporation, Sony Corporation may, by a resolution of the Board of Directors, exempt Directors from liabilities to Sony Corporation to the extent permitted by law arising in connection with their failure to execute their duties. Accordingly, Sony Corporation has entered into a liability limitation agreement with each outside Director that limits the maximum amount of their liabilities owed to Sony Corporation arising in connection with their failure to execute their duties to the greater of either 30 million yen or an amount equal to the aggregate sum of the amounts prescribed in each item of Article 425, Paragraph 1 of the Company Law.

The Board of Directors must appoint one or more Corporate Executive Officers who are authorized to determine matters delegated to them by the Board of Directors. The Corporate Executive Officers are responsible for conducting all the business operations of Sony within the scope of authority delegated by the Board of Directors. As of July 31, 2006, there are 7 Corporate Executive Officers, some of whom are also Directors. Significant decision-making authority has been delegated to the CEO and also to each Corporate Executive Officer with regard to investments, strategic alliances and other actions related to the execution of business operations. Sony Corporation believes that this significant delegation enables Sony to be managed in a more dynamic and responsive manner. The terms of office of Corporate Executive Officers must expire at the conclusion of the first meeting of the Board of Directors held immediately after the conclusion of the General Meeting of Shareholders held with respect to the last business year ending within one year after their election. From among the Corporate Executive Officers who as a general rule are also Directors, the Board of Directors shall elect Representative Corporate Executive Officers. Each Representative Corporate Executive Officer has the statutory authority to represent Sony Corporation in the conduct of its affairs.

**(Reference)**

At a Board meeting held on April 26, 2006, the Board of Directors reaffirmed the existing internal control and governance framework and determined to continue to evaluate and improve such framework going forward, as appropriate. This determination met the requirements of the Japanese Company Law.

Detail of the determination is posted on the following website:

<http://www.sony.net/SonyInfo/IR/library/control.html>

For an explanation as to the significant differences between the New York Stock Exchange's corporate governance standards and Sony's corporate governance practices, please visit us on the Internet at:

<http://www.sony.net/SonyInfo/IR/NYSEGovernance.html>

**Employees**

As of March 31, 2006, Sony had approximately 158,500 employees, an increase of approximately 7,000 employees from the end of March 2005. Although there was a reduction in employees associated with the implementation of restructuring activities in Japan, the U.S., Europe and Southeast Asia, the total number of employees increased as a result of a significant increase in employees at manufacturing facilities in East Asia excluding Japan. As of March 31, 2005, Sony had approximately 151,400 employees, a decrease of approximately 10,600 from March 31, 2004. As of March 31, 2005, approximately 62,300 employees were located in Japan and approximately 89,100 outside Japan, and approximately 16 percent were members of labor unions.

The fiscal year-end totals for the fiscal years ended March 31, 2006 and 2005 include approximately 1,200 employees in Japan who left Sony mainly through the early retirement program as of March 31, 2006 and 2,000 employees in Japan who left Sony mainly through the program as of March 31, 2005. As of March 31, 2006, approximately 61,600 employees were located in Japan and approximately 96,900 outside Japan, and approximately 19 percent were members of labor unions.

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The following table shows the number of employees by segment as of March 31, 2004, 2005 and 2006.  
**Number of Employees by Segment**

|                                 | <b>March 31</b> |                |                |
|---------------------------------|-----------------|----------------|----------------|
|                                 | <b>2004</b>     | <b>2005</b>    | <b>2006</b>    |
| Electronics                     | 128,000         | 124,500        | 130,800        |
| Game                            | 4,800           | 4,300          | 4,700          |
| Pictures                        | 6,200           | 5,900          | 6,900          |
| Financial Services              | 6,700           | 6,800          | 6,500          |
| All Other                       | 14,000          | 8,000          | 7,400          |
| Unallocated Corporate employees | 2,300           | 1,900          | 2,200          |
| <b>Total</b>                    | <b>162,000</b>  | <b>151,400</b> | <b>158,500</b> |

In addition, the average number of employees for the fiscal years ended March 31, 2004, 2005 and 2006 calculated by averaging the total number of employees at the end of each quarter, was 165,300, 154,200 and 156,200 respectively.

Sony generally considers its labor relations to be good. Only a few manufacturing facilities have labor unions and, of these, only a few have union contracts.

Regarding labor relations in the Electronics segment by area, in Asia, where Sony operates many manufacturing facilities, a few manufacturing facilities have labor unions that have union contracts. In the U.S., no manufacturing facilities have labor unions. In Mexico, one manufacturing facility has a labor union that has a union contract, but labor relations are good and there have been no significant problems in renegotiating the contract. In Europe, Sony maintains good labor relations with the Work Councils in each country, and, while some employees belong to unions, they are not eligible for union contracts.

In the Pictures segment, Sony also generally considers its labor relations to be good. A number of Pictures subsidiaries are signatories to union contracts. During the fiscal year ended March 31, 2006, renegotiations for new three-year agreements were successfully concluded with the International Alliance of Theatrical Stage Employees and Moving Picture Technicians, Artists and Allied Crafts for the West Coast Studio Local Agreements and the New York Local 52 and 161 Agreements, the British Columbia (Canada) Council of Unions and the Teamster Casting Directors and the American Federation of Musicians Agreement negotiated last fiscal year was ratified by the its membership. Negotiations were also successfully concluded with the Screen Actors Guild ( SAG ) for a two and a half year agreement covering made-for-basic cable animation performers. Negotiations with SAG for made-for-basic cable live action performers commenced in January 2006 and are continuing. It is not anticipated that SAG negotiations will interrupt television production.

Sony continuously strives to provide competitive wages and benefits and good working conditions for all of its employees.

**Share Ownership**

The following is the total number of shares of Sony Corporation's Common Stock beneficially owned by Directors and Corporate Executive Officers as of July 31, 2006 (18 people). Refer to Board Practices above.

| <b>Title of class</b> | <b>Identity of person or group</b> | <b>Number of shares beneficially owned</b> | <b>Percentage of class</b> |
|-----------------------|------------------------------------|--|----------------------------|
|-----------------------|------------------------------------|--|----------------------------|

|              |  | <b>(In thousands)</b> |       |
|--------------|--|-----------------------|-------|
| Common Stock | Directors and Corporate Executive Officers | 47                    | 0.005 |

Regarding compensation plans, following the amendments to the Commercial Code of Japan effective May 2002, Sony integrated different equity-related securities it had previously issued for the purpose of giving stock incentives into one unified stock option right. During the fiscal year ended March 31, 2006, Sony granted

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stock acquisition rights, which represent rights to subscribe for shares of Common Stock of Sony Corporation, to Directors, Corporate Executive Officers, Corporate Executives, Group Executives, and selected employees. The stock acquisition rights generally vest ratably up to three years from the date of grant and are generally exercisable up to ten years from the date of grant. The following table shows the portion of those stock acquisition rights which were granted by Sony to Directors and Corporate Executive Officers as of July 31, 2006 and which were outstanding as of the same date.

| <b>Year granted</b><br><b>(Fiscal Year ended March 31)</b> | <b>Total number of<br/>shares subject to<br/>stock<br/>acquisition rights</b> | <b>Exercise price per share</b> |
|--|---|---------------------------------|
|  | <b>(In thousands)</b>   |                                 |
| 2006   | 430   | 34.14 U.S. dollars              |
| 2006   | 175   | 4,060 yen                       |
| 2005   | 230   | 40.34 U.S. dollars              |
| 2005   | 113   | 3,782 yen                       |
| 2004   | 225   | 40.90 U.S. dollars              |
| 2004   | 52  | 4,101 yen                       |
| 2003   | 215   | 36.57 U.S. dollars              |
| 2003   | 16  | 5,396 yen                       |

Prior to the introduction of stock acquisition rights, Sony had granted warrants, which represent rights to subscribe for Sony Corporation's Common Stock, to Directors, Executive Officers, Group Executive Officers, and selected employees. The warrants generally vest ratably up to three years from the date of grant and are generally exercisable up to six years from the date of grant. The following table shows the portion of those warrants which were granted by Sony to current Directors and Corporate Executive Officers as of July 31, 2006 and which were outstanding as of the same date. The exercise price per share has been adjusted for the two-for-one stock split effective on May 19, 2000 and is subject to anti-dilution adjustment.

| <b>Year granted</b><br><b>(Fiscal Year ended March 31)</b> | <b>Total number of<br/>shares<br/>subject to warrants</b> | <b>Exercise price per<br/>share</b> |
|--|---|-------------------------------------|
|  | <b>(In thousands)</b>                                     | <b>(yen)</b>                        |
| 2001   | 17  | 12,457                              |
| 2002   | 19  | 6,039                               |

In addition, in order to provide equity-based compensation to selected executives at Sony's U.S. subsidiaries, Sony Corporation has issued U.S. dollar-denominated Convertible Bonds (CBs) to a holding company in the U.S. and the holding company has sold the CBs to those executives. For the purpose of carrying out this plan, the holding company lent an amount equal to the principal amount of CBs to such executives for their purchase of the CBs until the date of conversion. The CBs generally vest ratably up to three years from the date of sale and are generally exercisable up to ten years from the date of sale. The following table shows the portion of those CBs which were held by current Directors and Corporate Executive Officers as of July 31, 2006 and which were outstanding as of the same date.

| <b>Year issued</b> | <b>Total number of<br/>shares</b> |
|--------------------|-----------------------------------|
|--------------------|-----------------------------------|

| <b>(Fiscal Year ended March 31)</b> | <b>subject to CBs</b> | <b>Exercise price per share</b> |
|-------------------------------------|-----------------------|---------------------------------|
|                                     | <b>(In thousands)</b> | <b>(U.S. dollars)</b>           |
| 2001                                | 60                    | 122.98                          |
| 2002                                | 106                   | 71.28                           |
| 2003                                | 115                   | 52.29                           |

Furthermore, Sony has granted stock appreciation rights ( SARs ) in Japan, Europe, and the U.S. to selected employees. Under the terms of these plans, employees receive upon exercise cash equal to the amount by which the market price of Sony Corporation's Common Stock exceeds the strike price of the SARs. The SARs generally vest ratably up to three years from the date of grant and are generally exercisable up to ten years from the date of grant. The following table shows the portion of those SARs which were granted by Sony

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to selected employees who are Directors and Corporate Executive Officers as of July 31, 2006 and which were outstanding as of the same date.

| <b>Year granted</b>                 | <b>Total number of<br/>shares</b> | <b>Exercise price per<br/>share</b> |
|-------------------------------------|-----------------------------------|-------------------------------------|
| <b>(Fiscal Year ended March 31)</b> | <b>subject to SARs</b>            | <b>(U.S. dollars)</b>               |
|                                     | <b>(In thousands)</b>             | <b>(U.S. dollars)</b>               |
| The U.S. plan<br>2002               | 10                                | 44.00                               |

Regarding the above compensation plans, refer to Note 16 of Notes to Consolidated Financial Statements.

**Item 7. Major Shareholders and Related Party Transactions****Major Shareholders**

Dodge & Cox, an institutional investor based in San Francisco, California, filed a Schedule 13-F with the SEC on August 9, 2006. According to this filing, Dodge & Cox owned 66,112,621 ADRs of Sony Corporation as of June 30, 2006. In addition, while Sony assumes no responsibility for the accuracy of this supplemental information, according to the website of Dodge & Cox, as of June 30, 2006, Dodge & Cox owned 10,837,600 shares of outstanding Sony Corporation Common Stock. As a result, it appears that in total, Dodge & Cox beneficially owned 76,950,221 shares of outstanding Sony Corporation Common Stock representing 7.7 percent of the total. To the knowledge of Sony Corporation, there is no other significant change in the percentage ownership held by any major beneficial shareholders during the past three years. Major shareholders of Sony Corporation do not have different voting rights.

As of March 31, 2006, there were 1,000,938,776 shares of Common Stock outstanding, of which 145,074,404 shares were in the form of ADRs and 120,852,878 shares were held of record in the form of Common Stock by residents in the U.S. The number of registered ADR holders was 7,134, and the number of registered holders of shares of Common Stock in the U.S. was 257.

To the knowledge of Sony Corporation, it is not directly or indirectly owned or controlled by any other corporation, by any foreign government or by any other natural or legal person severally or jointly. As far as is known to Sony Corporation, there are no arrangements the operation of which may, at a subsequent date, result in a change in control of Sony Corporation.

**Related Party Transactions**

In the ordinary course of business, Sony purchases materials, supplies, and services from numerous suppliers throughout the world, including firms with which certain members of the Board of Directors are affiliated. In addition, in the fiscal year ended March 31, 2006, Sony entered into the following sales/purchase transactions with equity affiliates accounted for under the equity method: sales to Sony Ericsson Mobile Communications, AB ( Sony Ericsson ), a joint venture focused on mobile phone handsets, totaling 143.2 billion yen; sales to Kyoshin Technosonic Co., Ltd. ( Kyoshin ), a joint venture focused on marketing semiconductors and other electronic components, totaling 48.6 billion yen; sales to SONY BMG MUSIC ENTERTAINMENT ( SONY BMG ), a recorded music business joint venture, totaling 33.1 billion yen; purchases from S-LCD Corporation ( S-LCD ), a joint venture with Samsung Electronics Co., Ltd. for the manufacture of amorphous TFT LCD panels, totaling 159.4 billion yen; purchases from Oita TS Semiconductor Corporation ( OTSS ), a semiconductor manufacturing joint venture in Japan, totaling 58.8 billion yen and purchases from S.T. Liquid Crystal Display Corp., a liquid crystal display ( LCD ) joint venture in Japan, totaling 52.5 billion yen. As of March 31, 2006, Sony held notes and accounts receivable, trade due from Sony Ericsson, SONY BMG, and Kyoshin worth 27.4 billion yen, 6.5 billion yen, and 6.2 billion yen, respectively, in addition to notes and accounts payable, trade due to S-LCD and OTSS totaling 16.3 billion yen and 9.9 billion yen, respectively. Sony held advances to SONY BMG worth 15.8 billion yen. Because of the size of these transactions, Sony does not consider the amounts involved to be material to its business. Refer to Note 5 of Notes to Consolidated

Financial Statements for additional information regarding Sony's investments in and transactions with equity affiliates.  
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Sumitomo Mitsui Financial Group, Inc. and Sumitomo Mitsui Banking Corporation have performed and continue to perform commercial banking services for Sony. Akishige Okada, who has served as a Sony Corporation Director since June 20, 2002, had been a Representative Director of Sumitomo Mitsui Financial Group, Inc. and Sumitomo Mitsui Banking Corporation until June 28, 2005. Yoshiaki Yamauchi, who has served as a Sony Corporation Director since June 20, 2003, is a Director of Sumitomo Mitsui Financial Group, Inc. and Sumitomo Mitsui Banking Corporation.

**Interests of Experts and Counsel**

Not Applicable

**Item 8. *Financial Information***

**Consolidated Statements and Other Financial Information**

Refer to Consolidated Financial Statements and Notes to Consolidated Financial Statements.

**Legal Proceedings**

Sony Corporation and certain of its subsidiaries are defendants in several pending legal proceedings. However, based upon the information currently available to Sony, management of Sony believes that damages from such legal proceedings, if any, would not have a material effect on Sony's consolidated financial results and condition.

**Dividend Policy**

Sony believes that continuously increasing corporate value and providing dividends are essential to rewarding shareholders. It is Sony's policy to utilize retained earnings, after ensuring the perpetuation of stable dividends, to carry out various investments that contribute to an increase in corporate value such as those investments that ensure future growth and strengthen competitiveness.

A fiscal year-end cash dividend of 12.5 yen per share of Sony Corporation Common Stock was approved at the Board of Directors meeting held on May 17, 2006 and was paid on June 1, 2006. Sony Corporation has already paid an interim dividend for Common Stock of 12.5 yen per share to each shareholder; accordingly, the total annual cash dividend per share of Common Stock is 25.0 yen.

All shares of shares of Subsidiary Tracking Stock, the economic value of which was intended to be linked with Sony Communication Network Corporation's economic value, were converted to shares of Sony Corporation Common Stock on December 1, 2005.

**Significant Changes**

No significant change has occurred since the date of the annual financial statements included in this annual report.



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**Item 9. *The Offer and Listing***

**Offer and Listing Details**

Not Applicable

**Plan of Distribution**

Not Applicable

**Markets**

***Trading Markets***

The principal trading markets for Sony Corporation's ordinary shares are the Tokyo Stock Exchange (the "TSE") in the form of Common Stock and the New York Stock Exchange (the "NYSE") in the form of American Depositary Shares ("ADSs") evidenced by American Depositary Receipts ("ADRs"). Each ADS represents one share of Common Stock.

Sony Corporation's Common Stock, with no par value per share, has been listed on the TSE since 1958, and is also listed on the London Stock Exchange in the United Kingdom and the Osaka Securities Exchange in Japan. In October 2005, due to the prevalence of borderless stock trading, and the fact that the trading volume of Sony's shares on the following exchanges has been extremely low, the Board of Directors of Sony Corporation resolved to apply for delisting from the following exchanges: Pacific, Chicago, Toronto, Paris, Frankfurt, Düsseldorf, Brussels, Vienna, and Swiss. The delisting procedures of these stock exchanges was completed as of March 31, 2006.

Sony Corporation's ADRs have been traded in the U.S. since 1961 and have been listed on the NYSE since 1970 under the symbol "SNE". Sony Corporation's ADRs are issued and exchanged by JPMorgan Chase Bank, as Depositary.

In June 2001, Sony Corporation issued shares of subsidiary tracking stock in Japan, the economic value of which was intended to be linked to the economic value of Sony Communication Network Corporation, a consolidated subsidiary of Sony Corporation which is engaged in Internet-related services. The subsidiary tracking stock, totaling 3,072,000 shares, was issued at 3,300 yen per share and listed on the TSE. The shares were not offered or sold in the U.S. In October 2005, the Board of Directors of Sony Corporation decided to terminate all shares of subsidiary tracking stock with the method of compulsory conversion to shares of Sony's common stock. All shares of subsidiary tracking stock were converted to shares of Sony's common stock on December 1, 2005. Refer to "History and Development of the Company" in Item 4. *Information on the Company*.

**Table of Contents****Trading on the TSE and NYSE**

The following table sets forth for the periods indicated the reported high and low sales prices per share of Sony Corporation's Common Stock on the TSE and the reported high and low sales prices per share of Sony Corporation's ADS on the NYSE.

|                                      | Tokyo Stock<br>Exchange Price<br>Per Share of<br>Common Stock |       | New York Stock<br>Exchange Price<br>Per Share of<br>ADS |       |
|--------------------------------------|---|-------|---|-------|
|                                      | High  | Low   | High  | Low   |
|                                      | (Yen)   |       | (U.S. dollars)  |       |
| <b>Annual highs and lows*</b>        |   |       |   |       |
| The fiscal year ended March 31, 2002 | 10,340  | 3,960 | 85.75   | 32.80 |
| The fiscal year ended March 31, 2003 | 7,460   | 4,070 | 59.95   | 34.85 |
| The fiscal year ended March 31, 2004 | 4,670   | 2,720 | 42.81   | 23.16 |
| <b>Quarterly highs and lows*</b>     |   |       |   |       |
| The fiscal year ended March 31, 2005 |   |       |   |       |
| 1st quarter                          | 4,710   | 3,880 | 43.67   | 33.95 |
| 2nd quarter                          | 4,200   | 3,550 | 38.50   | 32.35 |
| 3rd quarter                          | 3,990   | 3,620 | 39.20   | 33.77 |
| 4th quarter                          | 4,420   | 3,750 | 41.81   | 36.26 |
| The fiscal year ended March 31, 2006 |   |       |   |       |
| 1st quarter                          | 4,410   | 3,770 | 40.79   | 34.38 |
| 2nd quarter                          | 4,100   | 3,660 | 36.74   | 32.38 |
| 3rd quarter                          | 5,020   | 3,710 | 41.30   | 31.80 |
| 4th quarter                          | 6,040   | 4,700 | 51.16   | 40.90 |
| <b>Monthly highs and lows*</b>       |   |       |   |       |
| 2006                                 |   |       |   |       |
| January                              | 6,040   | 4,700 | 51.16   | 40.90 |
| February                             | 5,970   | 5,240 | 49.95   | 45.57 |
| March                                | 5,660   | 5,220 | 48.01   | 44.39 |
| April                                | 6,200   | 5,420 | 52.29   | 45.70 |
| May                                  | 5,750   | 5,000 | 50.88   | 44.75 |
| June                                 | 5,240   | 4,660 | 46.90   | 40.67 |
| July                                 | 5,320   | 4,610 | 46.40   | 39.30 |
| August (through August 30)           | 5,360   | 4,940 | 46.17   | 42.26 |

\* Stock price data are based on prices throughout the sessions for each corresponding period at each stock exchange.

On August 30, 2006, the closing sales price per share of Sony Corporation's Common Stock on the TSE was 4,990 yen. On August 30, 2006, the closing sales price per share of Sony Corporation's ADS on the NYSE was 42.72 U.S. dollars.

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**Selling Shareholders**

Not Applicable

**Dilution**

Not Applicable

**Expenses of the Issue**

Not Applicable

**Item 10. Additional Information**

**Share Capital**

Not applicable

**Memorandum and Articles of Association**

**Organization**

Sony Corporation is a joint stock corporation (*Kabushiki Kaisha*) incorporated in Japan under the Company Law (*Kaishaho*) of Japan. It is registered in the Commercial Register (*Shogyo Tokibo*) maintained by the Shinagawa Branch Office of the Tokyo Bureau of Legal Affairs.

**Objects and purposes**

The Articles of Incorporation of Sony Corporation provide that its purpose is to engage in the following business activities:

- (i) manufacture and sale of electronic and electrical machines and equipment, medical instruments, optical instruments and other equipment, machines and instruments;
- (ii) planning, production and sale of audio-visual software and computer software programs;
- (iii) manufacture and sale of metal industrial products, chemical industrial products and ceramic industrial products, textile products, paper products and wood-crafted articles, daily necessities, foodstuffs and toys, transportation machines, equipment, petroleum and coal products;
- (iv) real estate activities, construction business, transportation business and warehousing business;
- (v) publishing business and printing business;
- (vi) advertising agency business, insurance agency business, broadcasting enterprise, recreation business such as travel, management of sporting facilities, etc. and other service enterprises;
- (vii) financial business;
- (viii) Type I and Type II telecommunications business under the Telecommunications Business Law;
- (ix) investing in stocks and bonds, etc.;
- (x) manufacture, sale, export and import of products which are incidental to or related to those mentioned above;
- (xi) rendering of services related to those mentioned above;
- (xii) investment in businesses mentioned above operated by other companies or persons; and
- (xiii) all businesses which are incidental to or related to those mentioned above.

**Table of Contents*****Directors***

Under the Company Law, Directors have no power to execute the business of Sony Corporation except in limited circumstances as permitted by law. If a Director also serves concurrently as a Corporate Executive Officer, then he or she can execute the business of Sony Corporation in the capacity of Corporate Executive Officer. Under the Company Law, Directors must refrain from engaging in any business competing with Sony Corporation unless approved by the Board of Directors, and any Director who has a material interest in the subject matter of a resolution to be taken by the Board of Directors cannot vote on such resolution. The amount of remuneration to each Director is determined by the Compensation Committee, which consists of Directors, the majority of whom are outside Directors (Refer to Board Practices in Item 6. *Directors, Senior Management and Employees* ). No member of the Compensation Committee may vote on a resolution with respect to his or her own compensation as a Director or a Corporate Executive Officer.

Neither the Company Law nor Sony Corporation's Articles of Incorporation make a special provision as to the borrowing powers exercisable by Directors (subject to requisite internal authorizations as required by the Company Law), their retirement age, or a requirement to hold any shares of capital stock of Sony Corporation.

For more information on Directors, see Board Practices in Item 6. *Directors, Senior Management and Employees*.

***Capital stock******(General)***

Unless indicated otherwise, set forth below is information relating to Sony Corporation's capital stock, including brief summaries of the relevant provisions of Sony Corporation's Articles of Incorporation and Share Handling Regulations, as currently in effect, and of the Company Law, which came into effect on May 1, 2006, and related legislation.

All issued shares are fully-paid and non-assessable, and are in registered form. Transfer of shares is effected by delivery of share certificates, but in order to assert shareholders' rights against Sony Corporation, a shareholder must, except as set forth below, have its name and address registered on Sony Corporation's register of shareholders, in accordance with Sony Corporation's Share Handling Regulations. The registered beneficial holder of deposited shares underlying the American Depositary Shares ( ADSs ) is the Depositary for the ADSs. Accordingly, holders of ADSs will not be able to directly assert shareholders' rights against Sony Corporation.

Mitsubishi UFJ Trust and Banking Corporation is the transfer agent for Sony Corporation's capital stock. As such, it keeps Sony Corporation's registers of shareholders and beneficial shareholders in its office at 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo and records transfers of shares upon presentation of the certificates representing the transferred shares.

A holder of shares may choose, at its discretion, to participate in the central clearing system for share certificates under the Law Concerning Central Clearing of Share Certificates and Other Securities of Japan. Participating shareholders must deposit certificates representing all of the shares to be included in this clearing system with Japan Securities Depository Center, Inc., or JASDEC. If a holder is not a participating institution in JASDEC, it must participate through a participating institution, such as a securities company or bank having a clearing account with JASDEC. All shares deposited with JASDEC will be registered in the name of JASDEC on Sony Corporation's register of shareholders. Each participating shareholder will in turn be registered on Sony Corporation's register of beneficial shareholders and be treated in the same way as shareholders registered on Sony Corporation's register of shareholders. Entry of the share transfer in the book maintained by JASDEC for participating institutions, or in the book maintained by a participating institution for its customers, has the same effect as delivery of share certificates. The registered beneficial shareholders may exercise the rights attached to the shares, such as voting rights, and will receive dividends (if any) and notices to shareholders directly from Sony Corporation. The shares held by a person as a registered

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shareholder and those held by the same person as a registered beneficial shareholder are aggregated for these purposes. Beneficial owners may at any time withdraw their shares from deposit and receive share certificates.

A law to establish a new central clearing system for shares of listed companies and to eliminate the issuance and use of certificates for such shares was promulgated in June 2004 and the relevant part of the law will come into effect within five years of the date of the promulgation. On the effective date, a new central clearing system will be established and the shares of all Japanese companies listed on any Japanese stock exchange, including the shares of Common Stock of Sony Corporation, will be subject to the new central clearing system. On the same day, all existing share certificates will become null and void. The transfer of such shares will be effected through entry in the books maintained under the new central clearing system.

*(Authorized capital)*

Under the Articles of Incorporation of Sony Corporation, Sony Corporation may only issue shares of Common Stock. Sony Corporation's Articles of Incorporation provide that the total number of shares authorized to be issued by Sony Corporation is 3.6 billion shares.

All shares of capital stock of Sony Corporation have no par value.

*(Distribution of Surplus)*

***Distribution of Surplus General***

Under the Company Law, distributions of cash or other assets by joint stock corporations to their shareholders, so called dividends, are referred to as distributions of Surplus ( Surplus is defined in Restriction on distributions of Surplus ). Sony Corporation may make distributions of Surplus to shareholders any number of times per business year, subject to certain limitations described in Restriction on distributions of Surplus. Distributions of Surplus are required in principle to be authorized by a resolution of a General Meeting of Shareholders, but Sony Corporation shall authorize distributions of Surplus by a resolution of the Board of Directors as long as its non-consolidated annual financial statements and certain documents for the last business year present fairly its assets and profit or loss, as required by ordinances of the Ministry of Justice.

Distributions of Surplus may be made in cash or in kind in proportion to the number of shares of Common Stock held by each shareholder. A resolution of a General Meeting of Shareholders or the Board of Directors authorizing a distribution of Surplus must specify the kind and aggregate book value of the assets to be distributed, the manner of allocation of such assets to shareholders, and the effective date of the distribution. If a distribution of Surplus is to be made in kind, Sony Corporation may, pursuant to a resolution of a General Meeting of Shareholders or (as the case may be) the Board of Directors, grant a right to the shareholders to require Sony Corporation to make such distribution in cash instead of in kind. If no such right is granted to shareholders, the relevant distribution of Surplus must be approved by a special resolution of a General Meeting of Shareholders (see Voting Rights with respect to a special resolution ).

Under the Articles of Incorporation of Sony Corporation, year-end dividends and interim dividends may be distributed to shareholders of record as of March 31 and September 30 each year, respectively, in proportion to the number of shares of Common Stock held by each shareholder following approval by the General Meeting of Shareholders or the Board of Directors. Sony Corporation is not obliged to pay any dividends unclaimed for a period of five years after the date on which they first became payable.

In Japan, the ex-dividend date and the record date for dividends precede the date of determination of the amount of the dividends to be paid. The price of the shares of Common Stock generally goes ex-dividend on the third business day prior to the record date.

**Table of Contents*****Distribution of Surplus Restriction on distribution of Surplus***

In making a distribution of Surplus, Sony Corporation must, until the sum of its additional paid-in capital and legal reserve reaches one quarter of its stated capital, set aside in its additional paid-in capital and/or legal reserve an amount equal to one-tenth of the amount of Surplus so distributed.

The amount of Surplus at any given time must be calculated in accordance with the following formula:

$$A + B + C + D - (E + F + G)$$

In the above formula:

- A the total amount of other capital surplus and other retained earnings, each such amount being that appearing on the non-consolidated balance sheet as of the end of the last business year
- B (if Sony Corporation has disposed of its treasury stock after the end of the last business year) the amount of the consideration for such treasury stock received by Sony Corporation less the book value thereof
- C (if Sony Corporation has reduced its stated capital after the end of the last business year) the amount of such reduction less the portion thereof that has been transferred to additional paid-in capital or legal reserve (if any)
- D (if Sony Corporation has reduced its additional paid-in capital or legal reserve after the end of the last business year) the amount of such reduction less the portion thereof that has been transferred to stated capital (if any)
- E (if Sony Corporation has cancelled its treasury stock after the end of the last business year) the book value of such treasury stock
- F (if Sony Corporation has distributed Surplus to its shareholders after the end of the last business year) the total book value of the Surplus so distributed
- G certain other amounts set forth in ordinances of the Ministry of Justice, including (if Sony Corporation has reduced Surplus and increased its stated capital, additional paid-in capital or legal reserve after the end of the last business year) the amount of such reduction and (if Sony Corporation has distributed Surplus to the shareholders after the end of the last business year) the amount set aside in additional paid-in capital or legal reserve (if any) as required by ordinances of the Ministry of Justice.

The aggregate book value of Surplus distributed by Sony Corporation may not exceed a prescribed distributable amount (the Distributable Amount), as calculated on the effective date of such distribution. The Distributable Amount at any given time shall be equal to the amount of Surplus less the aggregate of the followings:

- (a) the book value of its treasury stock;
- (b) the amount of consideration for any of treasury stock disposed of by Sony Corporation after the end of the last business year; and
- (c) certain other amounts set forth in ordinances of the Ministry of Justice, including (if the sum of one-half of goodwill and the deferred assets exceeds the total of stated capital, additional paid-in capital and legal reserve, each such amount being that appearing on the non-consolidated balance sheet as of the end of the last business year) all or certain part of such exceeding amount as calculated in accordance with the ordinances of the Ministry of Justice.

If Sony Corporation has become at its option a company with respect to which consolidated balance sheets should also be considered in the calculation of the Distributable Amount (*renketsu haito kisei tekiyo kaisha*), Sony Corporation shall further deduct from the amount of Surplus the excess amount, if any, of (x) the total amount of

stockholders' equity appearing on the non-consolidated balance sheet as of the end of the last business year and certain other amounts set forth by an ordinance of the Ministry of Justice over (y) the total amount of stockholders' equity and certain other amounts set forth by an ordinance of the Ministry of Justice appearing on the consolidated balance sheet as of the end of the last business year.

If Sony Corporation has prepared interim financial statements as described below, and if such interim financial statements have been approved by the Board of Directors or (if so required by the Company Law) by

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a General Meeting of Shareholders, then the Distributable Amount must be adjusted to take into account the amount of profit or loss, and the amount of consideration for any of the treasury stock disposed of by Sony Corporation, during the period in respect of which such interim financial statements have been prepared. Sony Corporation may prepare non-consolidated interim financial statements consisting of a balance sheet as of any date subsequent to the end of the last business year and an income statement for the period from the first day of the current business year to the date of such balance sheet. Interim financial statements so prepared by Sony Corporation must be audited by the Audit Committee and the independent auditor, as required by ordinances of the Ministry of Justice.

*(Stock splits)*

Sony Corporation may at any time split shares in issue into a greater number of shares at the determination of the CEO.

In the event of a stock split, generally, shareholders will not be required to exchange share certificates for new share certificates, but certificates representing the additional shares resulting from the stock split will be issued to shareholders. When a stock split is to be made Sony Corporation must give public notice of the stock split, specifying the record date thereof, at least two weeks prior to such record date.

*(Consolidation of shares)*

Sony Corporation may at any time consolidate issued shares into a smaller number of shares by a special shareholders resolution (as defined in *(Voting Rights)* ). When a consolidation of shares is to be made, Sony Corporation must give public notice and notice to each shareholder that, within a period of not less than one month specified in the notice, share certificates must be submitted to Sony Corporation for exchange. Sony Corporation must disclose the reason for the consolidation of shares at the general meeting of shareholders.

*(General Meeting of Shareholders)*

The Ordinary General Meeting of Shareholders of Sony Corporation for each business year is normally held in June of each year in Tokyo, Japan. In addition, Sony Corporation may hold an Extraordinary General Meeting of Shareholders whenever necessary by giving notice thereof at least two weeks prior to the date set for the meeting.

Notice of a shareholders meeting setting forth the place, time and purpose thereof must be mailed to each shareholder having voting rights (or, in the case of a non-resident shareholder, to such shareholder's resident proxy or mailing address in Japan) at least two weeks prior to the date set for the meeting. Under the Company Law, such notice may be given to shareholders by electronic means, subject to obtaining consent by the relevant shareholders. The record date for an Ordinary General Meeting of Shareholders is March 31 of each year.

Any shareholder or group of shareholders holding at least three percent of the total number of voting rights for a period of six months or more may require the convocation of a General Meeting of Shareholders for a particular purpose. Unless such a shareholders meeting is convened promptly or a convocation notice of a meeting which is to be held not later than eight weeks from the day of such demand is dispatched, the requiring shareholder may, upon obtaining a court approval, convene such a shareholders meeting.

Any shareholder or group of shareholders holding at least 300 voting rights or one percent of the total number of voting rights for a period of six months or more may propose a matter to be considered at a General Meeting of Shareholders by submitting a written request to Sony Corporation at least eight weeks prior to the date set for such meeting.

If the Articles of Incorporation so provide, any of the minimum voting rights or percentages, time periods and number of voting rights necessary for exercising the minority shareholder rights described above may be decreased or shortened.



**Table of Contents***(Voting rights)*

So long as Sony Corporation maintains the unit share system, a holder of shares constituting one or more units is entitled to one vote for each such unit of stock (Refer to *(Unit share system)* below, currently 100 shares constitute one unit), except that no voting rights with respect to shares of capital stock of Sony Corporation are afforded to Sony Corporation or any corporate or certain other entity more than one-quarter of the total voting rights of which are directly or indirectly held by Sony Corporation. If Sony Corporation eliminates from its Articles of Incorporation the provisions relating to units of stock, holders of capital stock will have one vote for each share they hold. Except as otherwise provided by law or by the Articles of Incorporation of Sony Corporation, a resolution can be adopted at a General Meeting of Shareholders by a majority of the number of voting rights of all the shareholders represented at the meeting. The Company Law and Sony Corporation's Articles of Incorporation provide, however, that the quorum for the election of Directors shall not be less than one-third of the total number of voting rights of all the shareholders. Sony Corporation's shareholders are not entitled to cumulative voting in the election of Directors. Shareholders may cast their votes in writing and may also exercise their voting rights through proxies, provided that the proxies are also shareholders holding voting rights. Shareholders may also exercise their voting rights by electronic means pursuant to the method designated by Sony Corporation.

The Company Law and the Articles of Incorporation of Sony Corporation provide that in order to amend the Articles of Incorporation and in certain other instances, including:

- (1) acquisition of its own shares from a specific party other than its subsidiaries;
- (2) consolidation of shares;
- (3) any offering of new shares at a specially favorable price (or any offering of stock acquisition rights to acquire shares of capital stock, or bonds with stock acquisition rights at specially favorable conditions) to any persons other than shareholders;
- (4) the exemption of liability of a Director, Corporate Executive Officer or independent auditor with certain exceptions;
- (5) a reduction of stated capital with certain exceptions;
- (6) a distribution of in-kind dividends which meets certain requirements;
- (7) dissolution, merger, consolidation, or corporate split with certain exceptions;
- (8) the transfer of the whole or a material part of the business;
- (9) the taking over of the whole of the business of any other corporation with certain exceptions; or
- (10) share exchange or share transfer for the purpose of establishing 100 percent parent-subsidary relationships with certain exceptions,

the quorum shall be one-third of the total number of voting rights of all the shareholders, and the approval by at least two-thirds of the number of voting rights of all the shareholders represented at the meeting is required (the special shareholders resolutions).

*(Issue of additional shares and pre-emptive rights)*

Holders of Sony Corporation's shares of capital stock have no pre-emptive rights under its Articles of Incorporation. Authorized but unissued shares may be issued at such times and upon such terms as the Board of Directors or the CEO determines, subject to the limitations as to the offering of new shares at a specially favorable price mentioned under *(Voting rights)* above. The Board of Directors or the CEO may, however, determine that shareholders of a particular class of stock shall be given subscription rights regarding a particular issue of new shares

of that class, in which case such rights must be given on uniform terms to all shareholders of that class of stock as at a record date of which not less than two weeks prior public notice must be given. Each of the shareholders to whom such rights are given must also be given notice of the expiry thereof at least two weeks prior to the date on which such rights expire.

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Subject to certain conditions, Sony Corporation may issue stock acquisition rights by a resolution of the Board of Directors or a determination by the CEO. Holders of stock acquisition rights may exercise their rights to acquire a certain number of shares within the exercise period as prescribed in the terms of their stock acquisition rights. Upon exercise of stock acquisition rights, Sony Corporation will be obliged to issue the relevant number of new shares or alternatively to transfer the necessary number of treasury stock held by it.

In cases where a particular issue of new shares or stock acquisition rights (i) violates laws and regulations or Sony Corporation's Articles of Incorporation, or (ii) will be performed in a manner materially unfair, and shareholders may suffer disadvantages therefrom, such shareholder may file an injunction to enjoin such issue with a court.

*(Liquidation rights)*

In the event of a liquidation of Sony Corporation, the assets remaining after payment of all debts, liquidation expenses and taxes will be distributed among the holders of shares of Common Stock in proportion to the respective numbers of shares of Common Stock held.

*(Record date)*

As mentioned above, March 31 is the record date for Sony Corporation's year-end dividends, if declared. So long as Sony Corporation maintains the unit share system, the shareholders and beneficial shareholders who are registered as the holders of one or more unit of stock in Sony Corporation's register of shareholders and/or beneficial shareholders at the end of each March 31 are also entitled to exercise shareholders' rights at the Ordinary General Meeting of Shareholders with respect to the business year ending on such March 31. September 30 is the record date for interim dividends. In addition, Sony Corporation may set a record date for determining the shareholders and/or beneficial shareholders entitled to other rights and for other purposes by giving at least two weeks prior public notice.

*(Acquisition by Sony Corporation of its capital stock)*

Under the Company Law and the Articles of Incorporation of Sony Corporation, Sony Corporation may acquire shares of Common Stock (i) by soliciting all the shareholders to offer to sell shares held by them (in this case, the certain terms of such acquisition, such as the total number of shares to be purchased and the total amount of consideration, shall be set by (as long as its non-consolidated annual financial statements and certain documents for the last business year present fairly its assets and profit or loss, as required by ordinances of the Ministry of Justice) a resolution of Board of Directors or an ordinary resolution of a General Meeting of Shareholders in advance, and acquisition shall be effected pursuant to a resolution of the Board of Directors), (ii) from a specific shareholder other than any of its subsidiaries (pursuant to a special resolution of a General Meeting of Shareholders), (iii) from any of its subsidiaries (pursuant to a determination by the CEO), or (iv) by way of purchase on any Japanese stock exchange on which Sony Corporation's shares of common stock are listed or by way of tender offer (in either case pursuant to an ordinary resolution of a General Meeting of Shareholders or a resolution of the Board of Directors). In the case of (ii) above, any other shareholder may make a request to Sony Corporation that such other shareholder be included as a seller in the proposed purchase, provided that no such right will be available if the purchase price or any other consideration to be received by the relevant specific shareholder will not exceed the last trading price of the shares on the relevant stock exchange on the day immediately preceding the date on which the resolution mentioned in (ii) above was adopted (or, if there is no trading in the shares on the stock exchange or if the stock exchange is not open on such day, the price at which the shares are first traded on such stock exchange thereafter).

The total amount of the purchase price of shares of Common Stock may not exceed the Distributable Amount, as described in Distributions of Surplus Restriction on distributions of Surplus.

Shares acquired by Sony Corporation may be held for any period or may be retired at the determination of the CEO. Sony Corporation may also transfer (by public or private sale or otherwise) to any person the shares held by it, subject to a determination by the CEO, and subject also to other requirements similar to

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those applicable to the issuance of new shares, as described in *(Issue of additional shares and pre-emptive rights)* above. Sony Corporation may also utilize its treasury stock for the purpose of transfer to any person upon exercise of stock acquisition rights or for the purpose of acquiring another company by way of merger, share exchange or corporate split through exchange of treasury stock for shares or assets of the acquired company.

*(Unit share system)*

The Articles of Incorporation of Sony Corporation provide that 100 shares constitute one unit of shares of stock. The Board of Directors or the Corporate Executive Officer to whom the authority to make such a determination has been delegated by a resolution of the Board of Directors is permitted to amend the Articles of Incorporation to reduce the number of shares that constitute a unit or to abolish the unit share system entirely. The number of shares constituting one unit cannot exceed 1,000 shares.

Under the unit share system, shareholders have one voting right for each unit of stock that they hold. Any number of shares less than one full unit have neither voting rights nor rights related to voting rights. The Articles of Incorporation and Share Handling Regulations of Sony Corporation provide that no share certificates shall be issued with respect to any number of shares constituting less than one full unit, unless Sony Corporation deems the issue of such share certificates to be necessary for any shareholder(s). As the transfer of shares normally requires delivery of the certificates, fractions of a unit for which no share certificate has been issued are not transferable. Moreover, holders of shares constituting less than one unit will have no other shareholder rights if Sony Corporation's Articles of Incorporation so provide, except that such holders may not be deprived of certain rights specified in the Company Law or an ordinance of the Ministry of Justice, including the right to receive distribution of Surplus.

A holder of shares constituting less than one full unit may require Sony Corporation to purchase such Shares at their market value in accordance with the provisions of the Share Handling Regulations of Sony Corporation.

The Articles of Incorporation of Sony Corporation provide that a holder of shares constituting less than one full unit may request Sony Corporation to sell to such holder such amount of shares which will, when added together with the shares constituting less than one full unit, constitute one full unit of stock. Such request by a holder and the sale by Sony Corporation must be made in accordance with the provisions of the Share Handling Regulations of Sony Corporation.

A holder who owns ADRs evidencing less than 100 ADSs will indirectly own less than one full unit. Although, as discussed above, under the unit share system holders of less than one full unit have the right to require Sony Corporation to purchase their shares or sell shares held by Sony Corporation to such holders, holders of ADRs evidencing ADSs that represent other than integral multiples of whole units are unable to withdraw the underlying shares of capital stock representing less than one full unit and, therefore, are unable, as a practical matter, to exercise the rights to require Sony Corporation to purchase such underlying shares or sell shares held by Sony Corporation to such holders. As a result, access to the Japanese markets by holders of ADRs through the withdrawal mechanism will not be available for dispositions of shares in lots less than one full unit. The unit share system does not affect the transferability of ADSs, which may be transferred in lots of any size.

*(Sale by Sony Corporation of shares held by shareholders whose location is unknown)*

Sony Corporation is not required to send a notice to a shareholder if a notice to such shareholder fails to arrive at the registered address of the shareholder in Sony Corporation's register of shareholders or at the address otherwise notified to Sony Corporation continuously for five years or more.

In addition, Sony Corporation may sell or otherwise dispose of shares of capital stock for which the location of the shareholder is unknown. Generally, if (i) notices to a shareholder fail to arrive continuously for five years or more at the shareholder's registered address in Sony Corporation's register of shareholders or at the address otherwise notified to Sony Corporation, and (ii) the shareholder fails to receive distributions of

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Surplus on the shares continuously for five years or more at the address registered in Sony Corporation's register of shareholders or at the address otherwise notified to Sony Corporation, Sony Corporation may sell or otherwise dispose of the shareholder's shares at the then market price of the shares by a determination of a Corporate Executive Officer and after giving at least three months' prior public and individual notice, and hold or deposit the proceeds of such sale or disposal of shares for such shareholder.

**Reporting of substantial shareholdings**

The Securities and Exchange Law of Japan and its related regulations require any person, regardless of residence, who has become, beneficially and solely or jointly, a holder of more than five percent of the total issued shares of capital stock of a company listed on any Japanese stock exchange or whose shares are traded on the over-the-counter market in Japan to file with the Director General of the competent Regional Finance Bureau of the Ministry of Finance within five business days a report concerning such shareholdings.

A similar report must also be filed in respect of any subsequent change of one percent or more in any such holding, with certain exceptions. For this purpose, shares issuable to such persons upon conversion of convertible securities or exercise of share subscription warrants or stock acquisition rights are taken into account in determining both the number of shares held by such holders and the issuer's total issued share capital. Copies of such report must also be furnished to the issuer of such shares and all Japanese stock exchanges on which the shares are listed.

Except for the general limitation under Japanese anti-trust and anti-monopoly regulations against holding of shares of capital stock of a Japanese corporation which leads or may lead to a restraint of trade or monopoly, and except for general limitations under the Company Law or Sony Corporation's Articles of Incorporation on the rights of shareholders applicable regardless of residence or nationality, there is no limitation under Japanese laws and regulations applicable to Sony Corporation or under its Articles of Incorporation on the rights of non-resident or foreign shareholders to hold or exercise voting rights on the shares of capital stock of Sony Corporation.

There is no provision in Sony Corporation's Articles of Incorporation or by-laws that would have an effect of delaying, deferring or preventing a change in control of Sony Corporation and that would operate only with respect to merger, acquisition or corporate restructuring involving Sony Corporation.

**Material Contracts**

None

**Exchange Controls**

The Foreign Exchange and Foreign Trade Law of Japan and its related cabinet orders and ministerial ordinances (the Foreign Exchange Regulations) govern the acquisition and holding of shares of capital stock of Sony Corporation by exchange non-residents and by foreign investors. The Foreign Exchange Regulations currently in effect do not, however, affect transactions between exchange non-residents to purchase or sell shares outside Japan using currencies other than Japanese yen.

Exchange non-residents are:

individuals who do not reside in Japan; and

corporations whose principal offices are located outside Japan.

Generally, branches and other offices of non-resident corporations that are located within Japan are regarded as residents of Japan. Conversely, branches and other offices of Japanese corporations located outside Japan are regarded as exchange non-residents.

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Foreign investors are:

individuals who are exchange non-residents;

corporations that are organized under the laws of foreign countries or whose principal offices are located outside of Japan; and

corporations (1) of which 50 percent or more of their shares are held by individuals who are exchange non-residents and/or corporations (a) that are organized under the laws of foreign countries or (b) whose principal offices are located outside of Japan or (2) a majority of whose officers, or officers having the power of representation, are individuals who are exchange non-residents.

In general, the acquisition of shares of a Japanese company (such as the shares of capital stock of Sony Corporation) by an exchange non-resident from a resident of Japan is not subject to any prior filing requirements. In certain limited circumstances, however, the Minister of Finance may require prior approval of an acquisition of this type. While prior approval, as described above, is not required, in the case where a resident of Japan transfers shares of a Japanese company (such as the shares of capital stock of Sony Corporation) for consideration exceeding 100 million yen to an exchange non-resident, the resident of Japan who transfers the shares is required to report the transfer to the Minister of Finance within 20 days from the date of the transfer, unless the transfer was made through a bank, securities company or financial futures trader licensed under Japanese law.

If a foreign investor acquires shares of a Japanese company that is listed on a Japanese stock exchange (such as the shares of capital stock of Sony Corporation) or that is traded on an over-the-counter market in Japan and, as a result of the acquisition, the foreign investor, in combination with any existing holdings, directly or indirectly holds 10 percent or more of the issued shares of the relevant company, the foreign investor must file a report of the acquisition with the Minister of Finance and any other competent Ministers having jurisdiction over that Japanese company within 15 days from and including the date of the acquisition, except where the offering of the company's shares was made overseas. In limited circumstances, such as where the foreign investor is in a country that is not listed on an exemption schedule in the Foreign Exchange Regulations, a prior notification of the acquisition must be filed with the Minister of Finance and any other competent Ministers, who may then modify or prohibit the proposed acquisition.

Under the Foreign Exchange Regulations, dividends paid on and the proceeds from sales in Japan of shares of capital stock of Sony Corporation held by non-residents of Japan may generally be converted into any foreign currency and repatriated abroad.

**Taxation**

The following is a summary of the major Japanese national tax and U.S. federal income tax consequences of the ownership, acquisition and disposition of shares of Common Stock of Sony Corporation and of ADRs evidencing ADSs representing shares of Common Stock of Sony Corporation by a non-resident of Japan or a non-Japanese corporation without a permanent establishment in Japan. The summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to any particular investor, and does not take into account any specific individual circumstances of any particular investor. Accordingly, holders of shares of Common Stock or ADSs of Sony Corporation are encouraged to consult their tax advisors regarding the application of the considerations discussed below to their particular circumstances.

This summary is based upon the representations of the Depositary and the assumption that each obligation in the deposit agreement in relation to the ADSs dated as of June 1, 1961, as amended and restated as of October 31, 1991, as further amended and restated as of March 17, 1995, and in any related agreement, will be performed in accordance with its terms.

For purposes of the income tax convention between Japan and the United States (the Treaty) and the U.S. Internal Revenue Code of 1986, as amended (the Code), U.S. holders of ADSs generally will be

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treated as owning shares of Common Stock of Sony Corporation underlying the ADSs evidenced by the ADRs. For the purposes of the following discussion, a U.S. holder is a holder that:

- (i) is a resident of the U.S. for purposes of the Treaty;
- (ii) does not maintain a permanent establishment in Japan (a) with which shares of Common Stock or ADSs of Sony Corporation are effectively connected and through which the U.S. holder carries on or has carried on business or (b) of which shares of Common Stock or ADSs of Sony Corporation form part of the business property; and
- (iii) is eligible for benefits under the Treaty with respect to income and gain derived in connection with shares of Common Stock or ADSs of Sony Corporation.

***Japanese Taxation***

The following is a summary of the principal Japanese tax consequences (limited to national taxes) to holders of shares of Common Stock of Sony Corporation and of ADRs evidencing ADSs representing shares of Common Stock of Sony Corporation who are non-residents of Japan or non-Japanese corporations, without a permanent establishment in Japan ( non-resident Holders ).

Generally, a non-resident of Japan or a non-Japanese corporation is subject to Japanese withholding tax on dividends paid by Japanese corporations. Sony Corporation withholds taxes from dividends it pays as required by Japanese law. Stock splits are, in general, not a taxable event.

In the absence of an applicable tax treaty, convention or agreement reducing the maximum rate of Japanese withholding tax or allowing exemption from Japanese withholding tax, the rate of Japanese withholding tax applicable to dividends paid by Japanese corporations to non-residents of Japan or non-Japanese corporations is generally 20 percent, provided, with respect to dividends paid on listed shares issued by a Japanese corporation (such as the shares of Common Stock of Sony Corporation) to any non-resident corporate or individual shareholders (including non-resident Holders) other than any individual shareholder who holds 5 percent or more of the total shares issued by the relevant Japanese corporation, the aforementioned 20 percent withholding tax rate is reduced to (i) 7 percent for dividends due and payable on or before March 31, 2008, and (ii) 15 percent for dividends due and payable on or after April 1, 2008. As of the date of this document, Japan has income tax treaties, conventions or agreements whereby the above-mentioned withholding tax rate is reduced, in most cases to 15 percent for portfolio investors with, among other countries, Australia, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, New Zealand, Norway, Singapore, Spain, Sweden, Switzerland and the U.K.

Under the Treaty, the maximum rate of Japanese withholding tax that may be imposed on dividends paid by a Japanese corporation to a U.S. holder that does not own directly or indirectly at least 10 percent of the voting stock of the Japanese corporation is generally reduced to 10 percent of the gross amount actually distributed, and Japanese withholding tax with respect to dividends paid by a Japanese corporation to a U.S. holder that is a pension fund is exempt from Japanese taxation by way of withholding or otherwise unless such dividends are derived from the carrying on of a business, directly or indirectly, by such pension fund.

If the maximum tax rate provided for in the income tax treaty applicable to dividends paid by Sony Corporation to any particular non-resident Holder is lower than the withholding tax rate otherwise applicable under Japanese tax law or any particular non-resident Holder is exempt from Japanese income tax with respect to such dividends under the income tax treaty applicable to such particular non-resident Holder, such non-resident Holder is required to submit an Application Form for Income Tax Convention Regarding Relief from Japanese Income Tax on Dividends (together with any other required forms and documents) in advance through Sony Corporation to the relevant tax authority before the payment of dividends. A standing proxy for non-resident Holders of a Japanese corporation may provide this application service. With respect to ADSs, this reduced rate or exemption is applicable if the Depository or its agent submits two Application Forms (one before payment of dividends and the other within eight months after Sony Corporation's fiscal year-end or semi-fiscal year-end). To claim this reduced rate or exemption, a non-resident Holder of ADSs will be required to file a proof of taxpayer status, residence and beneficial ownership (as applicable) and to

provide



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other information or documents as may be required by the Depository. A non-resident Holder who is entitled, under an applicable income tax treaty, to a reduced rate which is lower than the withholding tax rate otherwise applicable under Japanese tax law or an exemption from the withholding tax, but failed to submit the required application in advance will be entitled to claim the refund of taxes withheld in excess of the rate under an applicable tax treaty (if such non-resident Holder is entitled to a reduced treaty rate under the applicable income tax treaty) or the full amount of tax withheld (if such non-resident Holder is entitled to an exemption under the applicable income tax treaty) from the relevant Japanese tax authority. Sony Corporation does not assume any responsibility to ensure withholding at the reduced treaty rate or to ensure not withholding for shareholders who would be eligible under any applicable income tax treaty but do not follow the required procedures as stated above.

Gains derived from the sale of shares of Common Stock or ADSs of Sony Corporation outside Japan by a non-resident Holder holding such shares or ADSs as portfolio investors are, in general, not subject to Japanese income tax or corporation tax. U.S. holders are not subject to Japanese income or corporation tax with respect to such gains under the Treaty.

Japanese inheritance and gift taxes at progressive rates may be payable by an individual who has acquired shares of Common Stock or ADSs of Sony Corporation as a legatee, heir or donee even though neither the individual nor the deceased nor donor is a Japanese resident.

Holders of shares of Common Stock or ADSs of Sony Corporation should consult their tax advisors regarding the effect of these taxes and, in the case of U.S. holders, the possible application of the Estate and Gift Tax Treaty between the U.S. and Japan.

***United States Taxation with respect to shares of Common Stock and ADSs***

The U.S. dollar amount of dividends received (prior to deduction of Japanese taxes) by a U.S. holder of ADSs or Common Stock will be includable in income as ordinary income for U.S. federal income tax purposes to the extent paid out of current or accumulated earnings and profits of Sony Corporation as determined for U.S. federal income tax purposes. Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual prior to January 1, 2011 with respect to the ADSs or Common Stock will be subject to taxation at a maximum rate of 15 percent if the dividends are qualified dividends. Dividends paid on the Common Stock or ADSs will be treated as qualified dividends if Sony Corporation was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid a passive foreign investment company ( PFIC ). Based on Sony Corporation's audited financial statements and relevant market and shareholder data, Sony Corporation believes that it was not treated as a PFIC for U.S. federal income tax purposes with respect to its 2005 taxable year. In addition, based on Sony Corporation's audited financial statements and Sony Corporation's current expectations regarding the value and nature of its assets, the sources and nature of its income, and relevant market and shareholder data, Sony Corporation does not anticipate becoming a PFIC for the 2006 taxable year. The U.S. Treasury has announced its intention to promulgate rules pursuant to which holders of ADSs or Common Stock and intermediaries through whom such securities are held will be permitted to rely on certifications from issuers to treat dividends as qualified for tax reporting purposes. Because such procedures have not yet been issued, it is not clear whether Sony Corporation will be able to comply with them. Holders of ADSs and Common Stock should consult their own tax advisors regarding the availability of the reduced dividend tax rate in light of the considerations discussed above and their own particular circumstances.

Subject to applicable limitations and special considerations discussed below, a U.S. holder of ADSs or Common Stock of Sony Corporation will be entitled to a credit for Japanese tax withheld in accordance with the Tax Convention from dividends paid by Sony Corporation. For purposes of the foreign tax credit limitation, dividends will be foreign source income, and will constitute passive or financial services income. Foreign tax credits will not be allowed for withholding taxes imposed in respect of certain short-term or hedged positions and may not be allowed in respect of arrangements in which economic profit, after non-U.S. taxes, is insubstantial. Holders of Ads and Common Stock should consult their own tax advisors regarding the implications of these rules in light of their particular circumstances.



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Dividends paid by Sony Corporation to U.S. corporate holders of ADSs or Common Stock will not be eligible for the dividends-received deduction.

In general, a U.S. holder will recognize capital gain or loss upon the sale or other disposition of ADSs or Common Stock equal to the difference between the amount realized on the sale or disposition and the U.S. holder's tax basis in the ADSs or Common Stock. Such capital gain or loss will be long-term capital gain or loss if the ADSs or Common Stock have been held for more than one year on the date of the sale or disposition. The net amount of long-term capital gain recognized by an individual holder after May 5, 2003 and before January 1, 2011 generally is subject to taxation at a maximum rate of 15 percent. The net long-term capital gain recognized by an individual holder before May 6, 2003 or after December 31, 2010 generally is subject to taxation at a maximum rate of 20 percent.

**Dividends and Paying Agent**

Not Applicable

**Statement by Experts**

Not Applicable

**Documents on Display**

It is possible to read and copy documents referred to in this annual report on Form 20-F that have been filed with the SEC at the SEC's public reference room located at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms and their copy charges. You can also access the documents at the SEC's home page (<http://www.sec.gov/index.html>).

**Subsidiary Information**

Not Applicable

**Item 11. *Quantitative and Qualitative Disclosures about Market Risk***

Sony's normal course of business is continuously exposed to market fluctuation, such as fluctuations in currency exchange rates, interest rates or stock prices. Sony utilizes several derivative instruments, such as foreign exchange forward contracts, foreign currency option contracts, interest rate swap agreements and currency swap agreements in order to hedge the potential downside risk on the cash flow from the normal course of business caused by market fluctuation. Sony uses foreign exchange forward contracts and foreign currency option contracts primarily to reduce the foreign exchange volatility risk that accounts receivable or accounts payable denominated in yen, U.S. dollars, Euros or other currencies have through the normal course of Sony's worldwide business. Interest rate swap agreements and currency swap agreements are utilized to diversify funding conditions or to reduce funding costs, and in Financial Services segment, these transactions are used for asset liability management. Sony uses these derivative financial instruments mainly for risk-hedging purposes as described above, and few derivative transactions, such as bond futures and bond options are held or utilized for trading purposes in Financial Services segment. If hedge accounting cannot be applied because the accounts receivable or accounts payable to be hedged are not yet booked, or because cash flows from derivative transactions do not coincide with the underlying exposures recorded on Sony's balance sheet, then Sony understands that such derivatives agreements should be subject to a mark-to-market evaluation and their unrealized gains or losses are recognized in earnings. In addition, Sony holds marketable securities such as straight bonds, convertible bonds, and stocks in yen or other currencies in the Financial Services segment in order to obtain interest income or capital gain on the financial assets under management. Sony understands that such investment in marketable securities is also subjected to market fluctuation.

Sony measures the economic impact of market fluctuations on the value of derivatives agreements and marketable securities by using Value-at-Risk ( VaR ) analysis in order to comply with Item 11 disclosure

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requirements. VaR in this context indicates the potential maximum amount of loss in fair value resulting from adverse market fluctuations for a selected period of time and at a selected level of confidence.

The following table shows the results of VaR. These analyses for the fiscal year ended March 31, 2006 indicate the potential maximum loss in fair value as predicted by the VaR analysis resulting from market fluctuations in one day at a 95 percent confidence level. The VaR of currency exchange rate risk principally consists of risks arising from the volatility of the exchange rates between the yen and U.S. dollar and between the yen and the Euro, the currencies in which a significant amount of financial assets and liabilities and derivative transactions are maintained on a consolidated basis. The VaR of interest rate risk and stock price risk consists of risks arising from the volatility of the interest rates and stock prices against invested securities and derivatives transactions in the Financial Services segment.

The net VaR for Sony's entire portfolio is smaller than the simple aggregate of VaR for each component of market risk. This is due to the fact that market risk factors such as currency exchange rates, interest rates, and stock prices are not completely independent, and potential profits and losses arising from each market risk may to some degree be mutually offsetting.

The disclosed VaR amounts simply represent the calculated potential maximum loss on the specified date and does not necessarily indicate an estimate of actual or future loss.

**Consolidated**

|                                    | <b>June 30,<br/>2005</b> | <b>September 30,<br/>2005</b> | <b>December 31,<br/>2005</b> | <b>March 31,<br/>2006</b> |
|------------------------------------|--------------------------|-------------------------------|------------------------------|---------------------------|
|                                    | (Yen in billions)        |                               |                              |                           |
| Net VaR                            | 1.9                      | 3.4                           | 5.8                          | 4.5                       |
| VaR of currency exchange rate risk | 0.8                      | 1.0                           | 1.0                          | 1.2                       |
| VaR of interest rate risk          | 0.1                      | 0.1                           | 0.4                          | 0.1                       |
| VaR of stock price risk            | 1.9                      | 3.1                           | 6.3                          | 4.3                       |

**Financial Services**

|                                    | <b>June 30,<br/>2005</b> | <b>September 30,<br/>2005</b> | <b>December 31,<br/>2005</b> | <b>March 31,<br/>2006</b> |
|------------------------------------|--------------------------|-------------------------------|------------------------------|---------------------------|
|                                    | (Yen in billions)        |                               |                              |                           |
| Net VaR                            | 1.9                      | 3.2                           | 5.9                          | 4.4                       |
| VaR of currency exchange rate risk | 0.4                      | 0.5                           | 0.7                          | 0.6                       |
| VaR of interest rate risk          | 0.1                      | 0.1                           | 0.4                          | 0.1                       |
| VaR of stock price risk            | 1.9                      | 3.1                           | 6.3                          | 4.3                       |

**All other segments excluding Financial Services**

|                                    | <b>June 30,<br/>2005</b> | <b>September 30,<br/>2005</b> | <b>December 31,<br/>2005</b> | <b>March 31,<br/>2006</b> |
|------------------------------------|--------------------------|-------------------------------|------------------------------|---------------------------|
|                                    | (Yen in billions)        |                               |                              |                           |
| Net VaR                            | 0.5                      | 0.9                           | 0.6                          | 0.6                       |
| VaR of currency exchange rate risk | 0.5                      | 0.9                           | 0.6                          | 0.6                       |
| VaR of interest rate risk          | 0.0                      | 0.0                           | 0.0                          | 0.0                       |
| VaR of stock price risk            | 0.0                      | 0.0                           | 0.0                          | 0.0                       |



**Table of Contents****Item 12. *Description of Securities Other Than Equity Securities***

Not Applicable

**Item 13. *Defaults, Dividend Arrearages and Delinquencies***

None

**Item 14. *Material Modifications to the Rights of Security Holders and Use of Proceeds***

None

**Item 15. *Controls and Procedures***

Sony has carried out an evaluation under the supervision and with the participation of Sony's management, including the Chief Executive Officer, President, and Chief Financial Officer, of the effectiveness of the design and operation of Sony's disclosure controls and procedures as of March 31, 2006. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon Sony's evaluation, the Chief Executive Officer, President and Chief Financial Officer have concluded that, as of March 31, 2006, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports Sony files and submits under the Securities and Exchange Act of 1934 is recorded, processed, summarized and reported as and when required, within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to Sony's management, including the Chief Executive Officer, President, and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There has been no change in Sony's internal control over financial reporting during the fiscal year ended March 31, 2006 that has materially affected, or is reasonably likely to materially affect, Sony's internal control over financial reporting.

**Item 16. *[Reserved]*****Item 16A. *Audit Committee Financial Expert***

Sony's Board of Directors has determined that Mr. Yoshiaki Yamauchi and Mr. Fueo Sumita both qualify as an audit committee financial expert as defined in this Item 16A. In addition, both are independent as defined under the New York Stock Exchange Corporate Governance Standards.

**Item 16B. *Code of Ethics***

Sony has adopted a code of ethics, as defined in Item 16B of Form 20-F under the Securities Exchange Act of 1934, as amended. The code of ethics applies to Sony's chief executive officer, chief financial officer, chief accounting officer and persons performing similar functions, as well as to directors and all other officers and employees of Sony, as defined in the code of ethics. The code of ethics is available at

[http://www.sony.net/SonyInfo/Environment/management/compliance/qfhh7c000006e52h-att/code\\_of\\_conduct.pdf](http://www.sony.net/SonyInfo/Environment/management/compliance/qfhh7c000006e52h-att/code_of_conduct.pdf)

**Table of Contents****Item 16C. Principal Accountant Fees and Services  
Audit and Non-Audit Fees**

ChuoAoyama PricewaterhouseCoopers is a network firm of PricewaterhouseCoopers in Japan. The following table presents fees for audit and other services rendered by PricewaterhouseCoopers for the fiscal years ended March 31, 2005 and 2006.

|                       | <b>March 31</b>          |              |
|-----------------------|--------------------------|--------------|
|                       | <b>2005</b>              | <b>2006</b>  |
|                       | <b>(Yen in millions)</b> |              |
| Audit Fees            | 1,939                    | 2,180        |
| Audit-Related Fees(1) | 570                      | 206          |
| Tax Fees(2)           | 737                      | 486          |
| All Other Fees(3)     | 68                       | 12           |
|                       | <b>3,314</b>             | <b>2,884</b> |

(1) Audit-Related Fees consist primarily of services related to the implementation of Sarbanes-Oxley Act Section 404 and employee benefit plan audits.

(2) Tax Fees primarily include tax compliance, tax advice and expatriate tax services.

(3) All Other Fees comprise fees for all other services not included in any of the other categories noted above.

**Audit Committee's Pre-Approval Policies and Procedures**

Consistent with U.S. Securities and Exchange Commission rules regarding auditor independence, Sony's Audit Committee is responsible for appointing, reviewing and setting compensation, retaining, and overseeing the work of Sony's independent auditor, so that the auditor's independence will not be impaired, including overseeing any separate firm that audits the financial statements of any subsidiary if Sony's independent auditor expressly relies on the audit report of such firm. The Audit Committee has established a formal policy requiring pre-approval of all audit and permissible non-audit services provided by the independent auditor to Sony or any of its subsidiaries. The Audit Committee shall periodically review this policy with due regard for compliance with laws and regulations of host countries where Sony is listed.

Prior to the engagement of the independent auditor for the following fiscal year's audit, management shall submit an application form to the Audit Committee for comprehensive pre-approval of all recurring services expected to be rendered during that year. In order to obtain comprehensive pre-approval, management shall provide sufficient information regarding each service so that each service can be classified into one of four categories (Audit, Audit-related, Tax, or All Other) as well as information regarding the fees expected to be budgeted for each service. Management shall describe each service in detail and indicate precisely and unambiguously the nature and scope of each particular service. Any additional services not contemplated in the application form shall require the Audit Committee's separate pre-approval on an individual basis. The Audit Committee will approve, if necessary, any changes in terms, conditions and fees, resulting from changes in the scope of services to be provided or from other circumstances. The Audit Committee Chairman retains pre-approval authority and evaluates items for approval on a weekly basis. The Audit Committee or its designee shall establish procedures to assure that the independent auditor is aware in a timely manner of the services that have been pre-approved.

During the fiscal year ended March 31, 2006, in order to further enhance auditor independence, individual tax services, recruiting services and corporate tax services were added, at Sony's initiative, to the list of prohibited services

stipulated by U.S. Securities and Exchange Commission rules and related regulations. The Audit Committee has withheld approval regarding the rendering of these services except for instances where the services had already been pre-approved prior to the effective date June 23, 2005 and instances in



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which difficulties were encountered in finding an alternative service provider immediately or a brief transitional period has been needed.

**Item 16D. Exemptions From Listing Standards for Audit Committees**

Not applicable.

**Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

The following table sets out information concerning purchases made by Sony during the fiscal year ended March 31, 2006.

| <b>Period</b>            | <b>(a) Total<br/>Number<br/>of<br/>Shares<br/>Purchased</b> | <b>(b)<br/>Average<br/>Price Paid<br/>per Share</b> | <b>(c) Total<br/>Number<br/>of Shares<br/>Purchased as<br/>Part<br/>of Publicly<br/>Announced<br/>Plans<br/>or Programs</b> | <b>(d) Maximum<br/>Number of<br/>Shares<br/>that May Yet<br/>Be<br/>Purchased<br/>Under<br/>the Plans or<br/>Programs</b> |
|--------------------------|---|---|---|---|
| April 1st 30th, 2005     | 7,133   | 4,262.23  | N/A   | N/A   |
| May 1st 31st, 2005       | 3,540   | 4,008.09  | N/A   | N/A   |
| June 1st 30th, 2005      | 7,844   | 3,923.01  | N/A   | N/A   |
| July 1st 31st, 2005      | 7,451   | 3,885.16  | N/A   | N/A   |
| August 1st 31st, 2005    | 6,770   | 3,728.61  | N/A   | N/A   |
| September 1st 30th, 2005 | 5,240   | 3,906.85  | N/A   | N/A   |
| October 1st 31st, 2005   | 5,921   | 3,784.80  | N/A   | N/A   |
| November 1st 30th, 2005  | 6,505   | 4,022.68  | N/A   | N/A   |
| December 1st 31st, 2005  | 15,143  | 4,450.79  | N/A   | N/A   |
| January 1st 31st, 2006   | 8,171   | 4,914.34  | N/A   | N/A   |
| February 1st 28th, 2006  | 9,242   | 5,669.85  | N/A   | N/A   |
| March 1st 31st, 2006     | 6,489   | 5,466.27  | N/A   | N/A   |
| <b>Total</b>             | <b>89,449</b>   | <b>4,405.06</b>                                     | <b>N/A</b>  | <b>N/A</b>  |

Under the Company Law of Japan, a holder of shares constituting less than one full unit may require Sony Corporation to purchase such shares at their market value (See Memorandum and Articles of Association Capital stock (*Unit share system*) in Item 10. *Additional Information* ). During the fiscal year ended March 31, 2006, Sony Corporation purchased 89,449 shares for a total purchase price of 394,028,170 yen upon such requests from holders of shares constituting less than one full unit.

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**Item 17. *Financial Statements***

Not applicable

**Item 18. *Financial Statements***

Refer to Consolidated Financial Statements.

**Item 19. *Exhibits***

Documents filed as exhibits to this annual report:

- 1.1 Articles of Incorporation, as amended (English Translation)
- 1.2 Share Handling Regulations, as amended (English Translation)
- 1.3 Charter of the Board of Directors, as amended (English Translation)
- 8.1 Significant subsidiaries (as defined in §210.1-02(w) of Regulation S-X) of Sony Corporation, including additional subsidiaries that management has deemed to be significant, as of March 31, 2006:  
Incorporated by reference to Business Overview and Organizational Structure in Item 4. Information on the Company
- 12.1 Principal Executive Officer Certification Pursuant to 17 C.F.R. 240.13a-14(a)
- 12.2 Principal Financial Officer Certification Pursuant to 17 C.F.R. 240.13a-14(a)
- 13.1 Certification Pursuant to 18 U.S.C. Section 1350
- 15.1 Consent of ChuoAoyama PricewaterhouseCoopers

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**SIGNATURES**

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Sony Corporation

(Registrant)

By: /s/ Nobuyuki Oneda

(Signature)

Nobuyuki Oneda

Executive Vice President

Chief Financial Officer

Date: August 31, 2006

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**Consolidated Financial Statements  
Sony Corporation and Consolidated Subsidiaries  
March 31, 2006**

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**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS  
SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES**

|  | <b>Page</b> |
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| <u>Report of Independent Registered Public Accounting Firm</u>   | F-2         |
| <u>Consolidated Balance Sheets at March 31, 2005 and 2006</u>  | F-4         |
| <u>Consolidated Statements of Income for the years ended March 31, 2004, 2005 and 2006</u>                                   | F-6         |
| <u>Consolidated Statements of Cash Flows for the years ended March 31, 2004, 2005 and 2006</u>                               | F-8         |
| <u>Consolidated Statements of Changes in Stockholders' Equity for the years ended March 31, 2004, 2005 and 2006</u>          | F-10        |
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| <u>Notes to Consolidated Financial Statements</u>  | F-14        |
| <u>Financial Statement Schedule II for the years ended March 31, 2004, 2005 and 2006 - Valuation and Qualifying Accounts</u> | F-78        |

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or the notes thereto.

Financial statements of majority-owned subsidiaries of the registrant not consolidated and of 50% or less owned persons accounted for by the equity method have been omitted because the registrant's proportionate share of the income from continuing operations before income taxes, and total assets of each such company is less than 20% of the respective consolidated amounts, and the investment in and advances to each company is less than 20% of consolidated total assets.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Stockholders and Board of Directors of  
Sony Corporation (Sony Kabushiki Kaisha)

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Sony Corporation and its subsidiaries ( the Company ) at March 31, 2005 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2006, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ ChuoAoyama PricewaterhouseCoopers

Tokyo, Japan  
May 26, 2006

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**SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS**

|   | <b>March 31</b>          |                   |
|---|--------------------------|-------------------|
|   | <b>2005</b>              | <b>2006</b>       |
|   | <b>(Yen in millions)</b> |                   |
| <b>ASSETS</b>                                     |                          |                   |
| <b>Current assets:</b>                            |                          |                   |
| Cash and cash equivalents                         | 779,103                  | 703,098           |
| Marketable securities                             | 460,202                  | 536,968           |
| Notes and accounts receivable, trade              | 1,113,071                | 1,075,071         |
| Allowance for doubtful accounts and sales returns | (87,709)                 | (89,563)          |
| Inventories                                       | 631,349                  | 804,724           |
| Deferred income taxes                             | 141,154                  | 221,311           |
| Prepaid expenses and other current assets         | 519,001                  | 517,915           |
| <br>Total current assets                          | <br>3,556,171            | <br>3,769,524     |
| Film costs  | 278,961                  | 360,372           |
| <b>Investments and advances:</b>                  |                          |                   |
| Affiliated companies                              | 252,905                  | 285,870           |
| Securities investments and other                  | 2,492,784                | 3,234,037         |
|   | 2,745,689                | 3,519,907         |
| <b>Property, plant and equipment</b>              |                          |                   |
| Land  | 182,900                  | 178,844           |
| Buildings   | 925,796                  | 926,783           |
| Machinery and equipment                           | 2,192,038                | 2,327,676         |
| Construction in progress                          | 92,611                   | 116,149           |
|   | 3,393,345                | 3,549,452         |
| Less Accumulated depreciation                     | 2,020,946                | 2,160,905         |
|   | 1,372,399                | 1,388,547         |
| <b>Other assets:</b>                              |                          |                   |
| Intangibles, net                                  | 187,024                  | 207,034           |
| Goodwill  | 283,923                  | 299,024           |
| Deferred insurance acquisition costs              | 374,805                  | 383,156           |
| Deferred income taxes                             | 240,396                  | 178,751           |
| Other   | 459,732                  | 501,438           |
|   | 1,545,880                | 1,569,403         |
| <b>Total assets:</b>                              | <b>9,499,100</b>         | <b>10,607,753</b> |



*(Continued on following page.)*

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**SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS (Continued)**

|  | 2005      | 2006      |
|--|-----------|-----------|
| (Yen in millions)  |           |           |
| LIABILITIES AND STOCKHOLDERS EQUITY                                    |           |           |
| <b>Current liabilities:</b>  |           |           |
| Short-term borrowings  | 63,396    | 142,766   |
| Current portion of long-term debt                                      | 166,870   | 193,555   |
| Notes and accounts payable, trade                                      | 806,044   | 813,332   |
| Accounts payable, other and accrued expenses                           | 746,466   | 854,886   |
| Accrued income and other taxes   | 55,651    | 87,295    |
| Deposits from customers in the banking business                        | 546,718   | 599,952   |
| Other  | 424,223   | 508,442   |
| Total current liabilities  | 2,809,368 | 3,200,228 |
| Long-term debt   | 678,992   | 764,898   |
| Accrued pension and severance costs                                    | 352,402   | 182,247   |
| Deferred income taxes  | 72,227    | 216,497   |
| Future insurance policy benefits and other                             | 2,464,295 | 2,744,321 |
| Other  | 227,631   | 258,609   |
| <b>Total liabilities:</b>  | 6,604,915 |           |
| <b>Minority interest in consolidated subsidiaries</b>                  | 23,847    | 37,101    |
| <b>Stockholders equity:</b>  |           |           |
| Subsidiary tracking stock, no par value                                |           |           |
| 2005 Authorized 100,000,000 shares, outstanding 3,072,000 shares       | 3,917     |           |
| Common stock, no par value   |           |           |
| 2005 Authorized 3,500,000,000 shares, outstanding 997,211,213 shares   | 617,792   |           |
| 2006 Authorized 3,500,000,000 shares, outstanding 1,001,679,664 shares |           | 624,124   |
| Additional paid-in capital   | 1,134,222 | 1,136,638 |
| Retained earnings  | 1,506,082 | 1,602,654 |
| Accumulated other comprehensive income                                 |           |           |
| Unrealized gains on securities   | 62,669    | 100,804   |
| Unrealized losses on derivative instruments                            | (2,490)   | (2,049)   |
| Minimum pension liability adjustment                                   | (90,030)  | (39,824)  |
| Foreign currency translation adjustments                               | (355,824) | (215,368) |
|  | (385,675) | (156,437) |
| Treasury stock, at cost  |           |           |
| Subsidiary tracking stock  |           |           |
| 2005 32 shares   | (0)       |           |
| Common stock   |           |           |
| 2005 1,118,984 shares  | (6,000)   |           |
| 2006 740,888 shares  |           | (3,127)   |

|   |           |            |
|---|-----------|------------|
|   | 2,870,338 | 3,203,852  |
| <b>Commitments and contingent liabilities</b>     |           |            |
| <b>Total liabilities and stockholders equity:</b> | 9,499,100 | 10,607,753 |

*The accompanying notes are an integral part of these statements.*

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**SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**

|   | <b>Fiscal Year Ended March 31</b> |                |                |
|---|-----------------------------------|----------------|----------------|
|   | <b>2004</b>                       | <b>2005</b>    | <b>2006</b>    |
|   | <b>(Yen in millions)</b>          |                |                |
| <b>Sales and operating revenue:</b>                             |                                   |                |                |
| Net sales   | 6,883,478                         | 6,565,010      | 6,692,776      |
| Financial service revenue                                       | 565,752                           | 537,715        | 720,566        |
| Other operating revenue   | 47,161                            | 56,891         | 62,094         |
|   | 7,496,391                         | 7,159,616      | 7,475,436      |
| <b>Costs and expenses:</b>                                      |                                   |                |                |
| Cost of sales   | 5,058,205                         | 5,000,112      | 5,151,397      |
| Selling, general and administrative                             | 1,798,239                         | 1,535,015      | 1,527,036      |
| Financial service expenses                                      | 505,550                           | 482,576        | 531,809        |
| Loss on sale, disposal or impairment of assets, net             | 35,495                            | 27,994         | 73,939         |
|   | 7,397,489                         | 7,045,697      | 7,284,181      |
| <b>Operating income</b>   | <b>98,902</b>                     | <b>113,919</b> | <b>191,255</b> |
| <b>Other income:</b>  |                                   |                |                |
| Interest and dividends  | 18,756                            | 14,708         | 24,937         |
| Royalty income  | 34,244                            | 31,709         | 35,161         |
| Foreign exchange gain, net                                      | 18,059                            |                |                |
| Gain on sale of securities investments, net                     | 11,774                            | 5,437          | 9,645          |
| Gain on change in interest in subsidiaries and equity investees | 4,870                             | 16,322         | 60,834         |
| Other   | 34,587                            | 29,447         | 23,039         |
|   | 122,290                           | 97,623         | 153,616        |
| <b>Other expenses:</b>  |                                   |                |                |
| Interest  | 27,849                            | 24,578         | 28,996         |
| Loss on devaluation of securities investments                   | 16,481                            | 3,715          | 3,878          |
| Foreign exchange loss, net                                      |                                   | 524            | 3,065          |
| Other   | 32,795                            | 25,518         | 22,603         |
|   | 77,125                            | 54,335         | 58,542         |
| <b>Income before income taxes</b>                               | <b>144,067</b>                    | <b>157,207</b> | <b>286,329</b> |
| <b>Income taxes:</b>  |                                   |                |                |
| Current   | 87,219                            | 85,510         | 96,400         |
| Deferred  | (34,445)                          | (69,466)       | 80,115         |

|        |        |         |
|--------|--------|---------|
| 52,774 | 16,044 | 176,515 |
|--------|--------|---------|

*(Continued on following page.)*

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**SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME (Continued)**

|  | <b>Fiscal Year Ended March 31</b> |             |             |
|--|-----------------------------------|-------------|-------------|
|  | <b>2004</b>                       | <b>2005</b> | <b>2006</b> |
|  | <b>(Yen in millions)</b>          |             |             |
| <b>Income before minority interest, equity in net income of affiliated companies and cumulative effect of an accounting change</b> | 91,293                            | 141,163     | 109,814     |
| Minority interest in income (loss) of consolidated Subsidiaries  | 2,379                             | 1,651       | (626)       |
| Equity in net income of affiliated companies   | 1,714                             | 29,039      | 13,176      |
| <b>Income before cumulative effect of an accounting change</b>   | 90,628                            | 168,551     | 123,616     |
| Cumulative effect of an accounting change  |                                   |             |             |
| (2004: Net of income taxes of 0 million  |                                   |             |             |
| 2005: Net of income taxes of 2,675 million)  | (2,117)                           | (4,713)     |             |
| <b>Net income</b>  | 88,511                            | 163,838     | 123,616     |
| <b>Per share data:</b>   |                                   |             |             |
| Common stock   |                                   |             |             |
| Income before cumulative effect of an accounting change  |                                   |             |             |
| Basic  | 98.26                             | 180.96      | 122.58      |
| Diluted  | 89.03                             | 162.59      | 116.88      |
| Cumulative effect of an accounting change  |                                   |             |             |
| Basic  | (2.29)                            | (5.06)      |             |
| Diluted  | (2.03)                            | (4.52)      |             |
| Net income   |                                   |             |             |
| Basic  | 95.97                             | 175.90      | 122.58      |
| Diluted  | 87.00                             | 158.07      | 116.88      |
| Cash dividends   | 25.00                             | 25.00       | 25.00       |
| Subsidiary tracking stock  |                                   |             |             |
| Net income (loss)  |                                   |             |             |
| Basic  | (41.80)                           | 17.21       |             |

*The accompanying notes are an integral part of these statements.*

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**SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS**

|   | <b>Fiscal Year Ended March 31</b> |             |             |
|---|-----------------------------------|-------------|-------------|
|   | <b>2004</b>                       | <b>2005</b> | <b>2006</b> |
|   | <b>(Yen in millions)</b>          |             |             |
| <b>Cash flows from operating activities:</b>  |                                   |             |             |
| Net income  | 88,511                            | 163,838     | 123,616     |
| Adjustments to reconcile net income to net cash provided by operating activities                            |                                   |             |             |
| Depreciation and amortization, including amortization of deferred insurance acquisition costs               | 366,269                           | 372,865     | 381,843     |
| Amortization of film costs  | 305,786                           | 276,320     | 286,655     |
| Accrual for pension and severance costs, less payments  | 35,562                            | 22,837      | (7,563)     |
| Gain on the transfer to the Japanese Government of the substitutional portion of employee pension fund, net |                                   |             | (73,472)    |
| Loss on sale, disposal or impairment of assets, net   | 35,495                            | 27,994      | 73,939      |
| Gain on sale or loss on devaluation of securities investments, net  | 4,707                             | (1,722)     | (5,767)     |
| Gain on evaluation of marketable securities held in the financial service business for trading purpose, net | (4,988)                           | (5,246)     | (44,986)    |
| Gain on change in interest in subsidiaries and equity investees   | (4,870)                           | (16,322)    | (60,834)    |
| Deferred income taxes   | (34,445)                          | (69,466)    | 80,115      |
| Equity in net (income) losses of affiliated companies, net of dividends                                     | 1,732                             | (15,648)    | 9,794       |
| Cumulative effect of an accounting change   | 2,117                             | 4,713       |             |
| Changes in assets and liabilities:  |                                   |             |             |
| (Increase) decrease in notes and accounts receivable, trade   | (63,010)                          | (22,056)    | 17,464      |
| (Increase) decrease in inventories  | (78,656)                          | 34,128      | (164,772)   |
| Increase in film costs  | (299,843)                         | (294,272)   | (339,697)   |
| Increase (decrease) in notes and accounts payable, trade  | 93,950                            | 31,473      | (9,078)     |
| Increase (decrease) in accrued income and other taxes   | (46,067)                          | 3           | 29,009      |
| Increase in future insurance policy benefits and other  | 264,216                           | 144,143     | 143,122     |
| Increase in deferred insurance acquisition costs  | (71,219)                          | (65,051)    | (51,520)    |
| (Increase) decrease in marketable securities held in the financial service business for trading purpose     | 369                               | (26,096)    | (35,346)    |
| Increase in other current assets  | (34,991)                          | (29,699)    | (8,792)     |
| Increase in other current liabilities   | 44,772                            | 46,545      | 105,865     |
| Other   | 27,238                            | 67,716      | (49,737)    |
| Net cash provided by operating activities   | 632,635                           | 646,997     | 399,858     |

*(Continued on following page.)*

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**SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

|  | 2004        | 2005        | 2006        |
|--|-------------|-------------|-------------|
| (Yen in millions)  |             |             |             |
| <b>Cash flows from investing activities:</b>   |             |             |             |
| Payments for purchases of fixed assets   | (427,344)   | (453,445)   | (462,473)   |
| Proceeds from sales of fixed assets  | 33,987      | 34,184      | 38,168      |
| Payments for investments and advances by financial service Business  | (1,167,945) | (1,309,092) | (1,368,158) |
| Payments for investments and advances (other than Financial service business)  | (33,329)    | (158,151)   | (36,947)    |
| Proceeds from maturities of marketable securities, sales of securities investments and collections of advances by financial service business           | 791,188     | 923,593     | 857,376     |
| Proceeds from maturities of marketable securities, sales of securities investments and collections of advances (other than financial service business) | 35,521      | 25,849      | 24,527      |
| Proceeds from sales of subsidiaries and equity investees stocks  |             | 3,162       | 75,897      |
| Other  | 6,130       | 2,728       | 346         |
| Net cash used in investing activities  | (761,792)   | (931,172)   | (871,264)   |
| <b>Cash flows from financing activities:</b>   |             |             |             |
| Proceeds from issuance of long-term debt   | 267,864     | 57,232      | 246,326     |
| Payments of long-term debt   | (32,042)    | (94,862)    | (138,773)   |
| Increase (decrease) in short-term borrowings   | (57,708)    | 11,397      | (11,045)    |
| Increase in deposits from customers in the financial service business  | 129,874     | 294,352     | 190,320     |
| Increase (decrease) in call money and bills sold in the banking business   | 30,300      | (40,400)    | 86,100      |
| Dividends paid   | (23,106)    | (22,978)    | (24,810)    |
| Proceeds from issuance of stocks by subsidiaries   | 5,252       | 4,023       | 6,937       |
| Other  | (7,151)     | (3,587)     | 4,809       |
| Net cash provided by financing activities  | 313,283     | 205,177     | 359,864     |
| Effect of exchange rate changes on cash and cash equivalents   | (47,973)    | 8,890       | 35,537      |
| Net increase (decrease) in cash and cash equivalents   | 136,153     | (70,108)    | (76,005)    |
| Cash and cash equivalents at beginning of the fiscal year  | 713,058     | 849,211     | 779,103     |
| Cash and cash equivalents at end of the fiscal year  | 849,211     | 779,103     | 703,098     |
| <b>Supplemental data:</b>  |             |             |             |
| Cash paid during the fiscal year for   |             |             |             |
| Income taxes   | 114,781     | 65,477      | 70,019      |
| Interest   | 22,571      | 18,187      | 24,651      |



| Non-cash investing and financing activities                           |        |         |        |
|---|--------|---------|--------|
| Conversion of convertible bonds                                       | 7,977  | 282,744 |        |
| Obtaining assets by entering into capital lease                       | 18,298 | 19,049  | 19,682 |
| Contribution of net assets into the joint venture with Bertelsmann AG |        | 9,402   |        |

*The accompanying notes are an integral part of these statements.*

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**SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

**Fiscal Year Ended March 31**

|   | Subsidiary<br>tracking<br>stock | Common<br>stock | Additional<br>paid-in<br>capital | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>income | Treasury<br>stock, at<br>cost | Total     |
|---|---------------------------------|-----------------|----------------------------------|----------------------|---|-------------------------------|-----------|
| (Yen in millions)   |                                 |                 |                                  |                      |   |                               |           |
| Balance at March 31, 2003   | 3,917                           | 472,361         | 984,196                          | 1,301,740            | (471,978)                                       | (9,341)                       | 2,280,895 |
| Conversion of convertible<br>bonds                                |                                 | 3,989           | 3,988                            |                      |   |                               | 7,977     |
| Stock issued under<br>exchange offering                           |                                 |                 | 5,409                            |                      |   |                               | 5,409     |
| Comprehensive income:   |                                 |                 |                                  |                      |   |                               |           |
| Net income  |                                 |                 |                                  | 88,511               |   |                               | 88,511    |
| Other comprehensive<br>income, net of tax                         |                                 |                 |                                  |                      |   |                               |           |
| Unrealized gains on<br>securities:                                |                                 |                 |                                  |                      |   |                               |           |
| Unrealized holding<br>gains (losses) arising<br>during the period |                                 |                 |                                  |                      | 57,971  |                               | 57,971    |
| Less: Reclassification<br>adjustment included in<br>net income    |                                 |                 |                                  |                      | (5,679)   |                               | (5,679)   |
| Unrealized losses on<br>derivative instruments:                   |                                 |                 |                                  |                      |   |                               |           |
| Unrealized holding<br>gains (losses) arising<br>during the period |                                 |                 |                                  |                      | 7,537   |                               | 7,537     |
| Less: Reclassification<br>adjustment included in<br>net income    |                                 |                 |                                  |                      | (3,344)   |                               | (3,344)   |
| Minimum pension<br>liability adjustment                           |                                 |                 |                                  |                      | 93,415  |                               | 93,415    |
| Foreign currency<br>translation adjustments:                      |                                 |                 |                                  |                      |   |                               |           |
| Translation<br>adjustments arising<br>during the period           |                                 |                 |                                  |                      | (129,113)                                       |                               | (129,113) |
| Less: Reclassification<br>adjustment included in<br>net income    |                                 |                 |                                  |                      | 1,232   |                               | 1,232     |
| Total comprehensive<br>income                                     |                                 |                 |                                  |                      |   |                               | 110,530   |

|                               |       |         |         |           |           |          |           |
|-------------------------------|-------|---------|---------|-----------|-----------|----------|-----------|
| Stock issue costs, net of tax |       |         |         | (53)      |           |          | (53)      |
| Dividends declared            |       |         |         | (23,138)  |           |          | (23,138)  |
| Purchase of treasury stock    |       |         |         |           |           | (8,523)  | (8,523)   |
| Reissuance of treasury stock  |       |         |         | (776)     |           | 5,681    | 4,905     |
| Balance at March 31, 2004     | 3,917 | 476,350 | 992,817 | 1,367,060 | (449,959) | (12,183) | 2,378,002 |

*(Continued on following page.)*

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**SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (Continued)**

**Fiscal Year Ended March 31**

|   | Subsidiary<br>tracking<br>stock | Common<br>stock | Additional<br>paid-in<br>capital | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>income | Treasury<br>stock, at<br>cost | Total     |
|---|---------------------------------|-----------------|----------------------------------|----------------------|---|-------------------------------|-----------|
| (Yen in millions)   |                                 |                 |                                  |                      |   |                               |           |
| Balance at March 31, 2004   | 3,917                           | 476,350         | 992,817                          | 1,367,060            | (449,959)                                       | (12,183)                      | 2,378,002 |
| Exercise of stock<br>acquisition rights                           |                                 | 52              | 53                               |                      |   |                               | 105       |
| Conversion of convertible<br>bonds                                |                                 | 141,390         | 141,354                          |                      |   |                               | 282,744   |
| Stock based compensation  |                                 |                 | 340                              |                      |   |                               | 340       |
| Comprehensive income:   |                                 |                 |                                  |                      |   |                               |           |
| Net income  |                                 |                 |                                  | 163,838              |   |                               | 163,838   |
| Other comprehensive<br>income, net of tax                         |                                 |                 |                                  |                      |   |                               |           |
| Unrealized gains on<br>securities:                                |                                 |                 |                                  |                      |   |                               |           |
| Unrealized holding<br>gains (losses) arising<br>during the period |                                 |                 |                                  |                      | 5,643   |                               | 5,643     |
| Less: Reclassification<br>adjustment included<br>in net income    |                                 |                 |                                  |                      | (12,924)  |                               | (12,924)  |
| Unrealized losses on<br>derivative instruments:                   |                                 |                 |                                  |                      |   |                               |           |
| Unrealized holding<br>gains (losses) arising<br>during the period |                                 |                 |                                  |                      | (209)   |                               | (209)     |
| Less: Reclassification<br>adjustment included<br>in net income    |                                 |                 |                                  |                      | (1,681)   |                               | (1,681)   |
| Minimum pension<br>liability adjustment                           |                                 |                 |                                  |                      | (769)   |                               | (769)     |
| Foreign currency<br>translation adjustments:                      |                                 |                 |                                  |                      |   |                               |           |
| Translation<br>adjustments arising<br>during the period           |                                 |                 |                                  |                      | 74,224  |                               | 74,224    |
| Total comprehensive<br>income                                     |                                 |                 |                                  |                      |   |                               | 228,122   |

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|                               |       |         |           |           |           |         |           |
|-------------------------------|-------|---------|-----------|-----------|-----------|---------|-----------|
| Stock issue costs, net of tax |       |         |           | (541)     |           |         | (541)     |
| Dividends declared            |       |         |           | (24,030)  |           |         | (24,030)  |
| Purchase of treasury stock    |       |         |           |           |           | (416)   | (416)     |
| Reissuance of treasury stock  |       |         | (342)     | (245)     |           | 6,599   | 6,012     |
| Balance at March 31, 2005     | 3,917 | 617,792 | 1,134,222 | 1,506,082 | (385,675) | (6,000) | 2,870,338 |

*(Continued on following page.)*

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**SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (Continued)**

**Fiscal Year Ended March 31**

|   | Subsidiary<br>tracking<br>stock | Common<br>stock | Additional<br>paid-in<br>capital | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>income | Treasury<br>stock,<br>at<br>cost | Total     |
|---|---------------------------------|-----------------|----------------------------------|----------------------|---|----------------------------------|-----------|
| (Yen in millions)   |                                 |                 |                                  |                      |   |                                  |           |
| Balance at March 31, 2005   | 3,917                           | 617,792         | 1,134,222                        | 1,506,082            | (385,675)                                       | (6,000)                          | 2,870,338 |
| Exercise of stock<br>acquisition rights                           |                                 | 931             | 932                              |                      |   |                                  | 1,863     |
| Conversion of convertible<br>bonds                                |                                 | 1,484           | 1,484                            |                      |   |                                  | 2,968     |
| Conversion of subsidiary<br>tracking stock                        | (3,917)                         | 3,917           |                                  |                      |   |                                  |           |
| Comprehensive income:   |                                 |                 |                                  |                      |   |                                  |           |
| Net income  |                                 |                 |                                  | 123,616              |   |                                  | 123,616   |
| Other comprehensive<br>income, net of tax                         |                                 |                 |                                  |                      |   |                                  |           |
| Unrealized gains on<br>securities:                                |                                 |                 |                                  |                      |   |                                  |           |
| Unrealized holding<br>gains (losses) arising<br>during the period |                                 |                 |                                  |                      | 79,630  |                                  | 79,630    |
| Less: Reclassification<br>adjustment included<br>in net income    |                                 |                 |                                  |                      | (41,495)  |                                  | (41,495)  |
| Unrealized losses on<br>derivative instruments:                   |                                 |                 |                                  |                      |   |                                  |           |
| Unrealized holding<br>gains (losses) arising<br>during the period |                                 |                 |                                  |                      | 7,865   |                                  | 7,865     |
| Less: Reclassification<br>adjustment included<br>in net income    |                                 |                 |                                  |                      | (7,424)   |                                  | (7,424)   |
| Minimum pension<br>liability adjustment                           |                                 |                 |                                  |                      | 50,206  |                                  | 50,206    |
| Foreign currency<br>translation adjustments:                      |                                 |                 |                                  |                      |   |                                  |           |
| Translation<br>adjustments arising<br>during the period           |                                 |                 |                                  |                      | 140,473   |                                  | 140,473   |
| Less: Reclassification<br>adjustment included<br>in net income    |                                 |                 |                                  |                      | (17)  |                                  | (17)      |

|                               |         |           |           |           |         |           |
|-------------------------------|---------|-----------|-----------|-----------|---------|-----------|
| Total comprehensive income    |         |           |           |           |         | 352,854   |
| Stock issue costs, net of tax |         |           | (780)     |           |         | (780)     |
| Dividends declared            |         |           | (24,968)  |           |         | (24,968)  |
| Purchase of treasury stock    |         |           |           |           | (394)   | (394)     |
| Reissuance of treasury stock  |         |           | (1,296)   |           | 3,267   | 1,971     |
| Balance at March 31, 2006     | 624,124 | 1,136,638 | 1,602,654 | (156,437) | (3,127) | 3,203,852 |

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**SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES  
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**Table of Contents****SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****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 and industrial markets. Sony also develops, produces, manufactures, and markets home-use game consoles and software. Sony's principal manufacturing facilities are located in Japan, the United States of America, Europe, and Asia. Its electronic products are marketed throughout the world and game products are marketed mainly in Japan, the United States of America and Europe by sales subsidiaries and unaffiliated local distributors as well as direct sales via the Internet. Sony is engaged in the development, production, manufacture, marketing, distribution and broadcasting of image-based software, including film, video and television product. Sony is also engaged in various financial service businesses including insurance operations through a Japanese life insurance subsidiary and a non-life insurance subsidiary, banking operations through a Japanese internet-based banking subsidiary and leasing and credit financing operations in Japan. In addition to the above, Sony is engaged in the development, production, manufacture, and distribution of recorded music, network service business including Internet-related businesses, an animation production and marketing business, an imported general merchandise retail business and an advertising agency business in Japan.

**2. *Summary of significant accounting policies***

Sony Corporation and its subsidiaries in Japan maintain their records and prepare their 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. Certain adjustments and reclassifications have been incorporated in the accompanying consolidated financial statements to conform with accounting principles generally accepted in the United States of America ( U.S. GAAP ). These adjustments were not recorded in the statutory books of account.

**(1) *Newly adopted accounting pronouncements:******Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts -***

In July 2003, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position ( SOP ) 03-1, *Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts* . SOP 03-1 requires insurance enterprises to record additional reserves for long-duration life insurance contracts with minimum guarantee or annuity receivable options. Additionally, SOP 03-1 provides guidance for the presentation of separate accounts. This statement is effective for fiscal years beginning after December 15, 2003. Sony adopted SOP 03-1 on April 1, 2004. As a result of the adoption of SOP 03-1, Sony's operating income decreased by 5,156 million yen for the fiscal year ended March 31, 2005. Additionally, on April 1, 2004, Sony recorded a 4,713 million yen charge (net of income taxes of 2,675 million yen) as a cumulative effect of an accounting change.

***The Effect of Contingently Convertible Instruments on Diluted Earnings per Share -***

In July 2004, the Emerging Issues Task Force ( EITF ) issued EITF Issue No. 04-8, *The Effect of Contingently Convertible Instruments on Diluted Earnings per Share* . In accordance with Statement of Financial Accounting Standards ( FAS ) No. 128, *Earnings per Share* , Sony had not previously included in the computation of diluted earnings per share ( EPS ) the number of potential common stock issuable upon the conversion of contingently convertible debt instruments ( Co-Cos ) that had not met the conditions

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to exercise the stock acquisition rights. EITF Issue No. 04-8 requires that the maximum number of common stock that could be issued upon the conversion of Co-Cos be included in diluted EPS computations from the date of issuance regardless of whether the conditions to exercise the stock acquisition rights have been met. EITF Issue No. 04-8 is effective for reporting periods ending after December 15, 2004. Sony adopted EITF Issue No. 04-8 during the quarter ended December 31, 2004. As a result of the adoption of EITF Issue No. 04-8, Sony's diluted EPS of income before cumulative effect of an accounting change and net income for the fiscal year ended March 31, 2004 were restated. Sony's diluted EPS of income before cumulative effect of an accounting change and net income for the fiscal year ended March 31, 2005 decreased by 7.26 yen and 7.06 yen, respectively, as a result of adopting EITF Issue No. 04-8.

***Consolidation of Variable Interest Entities -***

In January 2003, the Financial Accounting Standards Board ( FASB ) issued FASB Interpretation ( FIN ) No. 46, Consolidation of Variable Interest Entities – an Interpretation of Accounting Research Bulletin ( ARB ) No. 51 . FIN No. 46 addresses consolidation by a primary beneficiary of a variable interest entity ( VIE ). Sony early adopted the provisions of FIN No. 46 on July 1, 2003. As a result of adopting the original FIN No. 46, Sony recognized a one-time charge with no tax effect of 2,117 million yen as a cumulative effect of accounting change in the consolidated statement of income, and Sony's assets and liabilities increased by 95,255 million yen and 97,950 million yen, respectively. These increases were treated as non-cash transactions in the consolidated statement of cash flows. In addition, cash and cash equivalents increased by 1,521 million yen.

Sony subsequently early adopted the provisions of FIN No. 46R, which replaced FIN No. 46, upon issuance in December 2003. The adoption of FIN No. 46R did not have an impact on Sony's results of operations and financial position or impact the way Sony had previously accounted for VIEs.

***Exchanges of Nonmonetary Assets -***

In December 2004, the FASB issued FAS No. 153, Exchanges of Nonmonetary Assets, an amendment of Accounting Principle Board Opinion ( APB ) No. 29 . This statement requires that exchanges of productive assets be accounted for at fair value unless fair value cannot be reasonably determined or the transaction lacks commercial substance. This statement is effective for nonmonetary asset exchanges that have occurred in the fiscal periods beginning after June 15, 2005. Sony adopted FAS No. 153 on July 1, 2005. The adoption of FAS No. 153 did not have a material impact on Sony's results of operations and financial position.

***Accounting for Conditional Asset Retirement Obligations -***

In March 2005, the FASB issued FIN No. 47, Accounting for Conditional Asset Retirement Obligations – an Interpretation of FAS No. 143 . FIN No. 47 clarifies that an entity is required to recognize a liability for the fair value of a conditional retirement obligation when incurred if the liability's fair value can be reasonably estimated. FIN No. 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. This interpretation is effective no later than the end of fiscal years ending after December 15, 2005. Sony adopted FIN No. 47 on March 31, 2006. The adoption of FIN No. 47 did not have a material impact on Sony's results of operations and financial position.

***Determining Whether to Aggregate Operating Segments That Do Not Meet the Quantitative Thresholds -***

In September 2004, the EITF issued EITF Issue No. 04-10, Applying Paragraph 19 of FASB Statement No. 131, Disclosures about Segments of an Enterprise and Related Information, in Determining Whether to Aggregate Operating Segments That Do Not Meet the Quantitative Thresholds . EITF Issue

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No. 04-10 clarifies how an enterprise should evaluate the aggregation criteria in paragraph 17 of FAS No. 131 when determining whether operating segments that do not meet the quantitative thresholds may be aggregated in accordance with paragraph 19 of FAS No. 131. EITF Issue No. 04-10 is effective for fiscal years ending after September 15, 2005. Sony adopted EITF Issue No. 04-10 during the fiscal year ended March 31, 2006. The adoption of EITF Issue No. 04-10 did not have an impact on Sony's results of operation and financial position.

**(2) 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 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. Under the equity method, investments are stated at cost plus/minus Sony's equity in undistributed earnings or losses. Consolidated net income includes Sony's equity in current earnings or losses of such companies, after 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 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, where the sale of such shares is not part of a broader corporate reorganization and the reacquisition of such shares is not contemplated at the time of issuance, the resulting gains or losses arising from the change in interest are recorded in income for the year the change in interest transaction occurs. If the sale of such shares is part of a broader corporate reorganization, the reacquisition of such shares is contemplated at the time of issuance or realization of such gain is not reasonably assured (i.e., the entity is newly formed, non-operating, a research and development or start-up/development stage entity, or where the entity's ability to continue in existence is in question), the transaction is accounted for as a capital transaction.

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 assets and liabilities based on fair values at the date of acquisition. The unassigned residual value of the excess of the cost over the underlying net equity is recognized as goodwill.

***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. 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 year-end current rates and all income and expense accounts are translated at 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.

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Foreign currency receivables and payables are translated at appropriate year-end current rates and the resulting translation gains or losses are taken into income.

***Cash and cash equivalents -***

Cash and cash equivalents include all highly liquid investments, generally 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 net realizable 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.

***Equity securities in non-public companies -***

Equity securities in non-public companies are carried at cost as fair value is not readily determinable. If the 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 such factors as operating results, business plans and estimated future cash flows. Fair value is determined through the use of such methodologies as discounted cash flows, valuation of recent financings and comparable valuations of similar companies.

***Inventories -***

Inventories in electronics and game as well as non-film inventories for pictures 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 in electronics which is determined on the first-in, first-out basis.

***Film costs -***

Film costs related to theatrical and television product (which includes direct production costs, production overhead and acquisition costs) are stated at the lower of unamortized cost or estimated fair value and classified as non-current assets. Film costs are amortized, and the estimated liabilities for residuals and participations are accrued, for an individual product based on the proportion that current period actual revenues bear to the estimated remaining total lifetime revenues. These estimates are reviewed on a periodic basis.

***Property, plant and equipment and depreciation -***

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is primarily computed on the declining-balance method for Sony Corporation and its Japanese subsidiaries, except for certain semiconductor manufacturing facilities whose depreciation is computed on the straight-line method, and on the straight-line method for its foreign subsidiaries at rates based on estimated useful lives of the assets, principally, ranging from 15 years up to 50 years for buildings and from 2 years up 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.

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***Goodwill and other intangible assets -***

Goodwill and certain other intangible assets that are determined to have an indefinite life are not amortized and are tested for impairment during the fourth quarter of fiscal year on an annual basis 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. Fair value for those assets is generally determined using a discounted cash flow analysis.

Intangible assets with finite lives that are determined not to have an indefinite life mainly consist of artist contracts, music catalogs, acquired patent rights and software to be sold, leased or otherwise marketed. Artist contracts and music catalogs are amortized on a straight-line basis over 10 to 40 years. Acquired patent rights and software to be sold, leased or otherwise marketed are amortized on a straight-line basis over 3 to 10 years.

***Accounting for computer software to be sold -***

Sony accounts for software development costs in accordance with FAS No. 86, Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed .

In the Electronics segment, 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 amortized over the estimated economic life of the product, which is generally three years. Sony performs periodic reviews to ensure that unamortized program costs remain recoverable from future revenue.

In the Game segment, technological feasibility of the underlying software is reached shortly before the products are released to manufacturing. Costs incurred after technological feasibility is established are not material, and accordingly, Sony expenses software development costs for the Game segment as incurred as a part of research and development in cost of sales.

***Deferred insurance acquisition costs -***

Costs that vary with and are primarily related to acquiring new insurance policies are deferred as long as they are recoverable. The deferred insurance acquisition costs include such items as commission, medical examination and inspection report fees. 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 by either product category group or individual product. 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 Electronics segment offer extended warranty programs. The consideration received through extended warranty service is deferred and amortized 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 such as future investment yield, morbidity, mortality and withdrawals. These assumptions are

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reviewed on a periodic basis. Liabilities for future insurance policy benefits also include liabilities for guaranteed benefits related to certain non-traditional long-duration life and annuity contracts.

***Accounting for the impairment of long-lived assets -***

Sony periodically reviews 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 indicated that the carrying amount may not be recoverable. Long-lived assets to be held and used are reviewed for impairment by comparing the carrying value of the assets with their estimated undiscounted future cash flows. If it is determined that an impairment loss has occurred, the loss would be recognized during the period. The impairment loss would be calculated as the difference between asset carrying value and the present value of estimated net cash flows or comparable market values, giving consideration to recent operating performance. 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. Reductions in carrying value are recognized in the period in which the long-lived assets are classified as held for sale.

***Derivative financial instruments -***

All derivatives, including certain derivative financial instruments embedded in other contracts, are recognized as either assets or liabilities in the balance sheet 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.

In accordance with FAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, the derivative financial instruments held by Sony are classified and accounted as 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 under FAS No. 133 are recognized in current period earnings.

Sony formally documents all hedging relationships between the derivatives designated as hedges and 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 balance sheet or to the specific forecasted transaction. 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

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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.

***Stock-based compensation -***

Sony applies APB No. 25, Accounting for Stock Issued to Employees, and its related interpretations in accounting for its stock-based compensation plans and follows the disclosure-only provisions of FAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure an Amendment of FASB Statement No. 123. In accordance with APB No. 25, stock-based compensation cost is recognized in income based on the excess, if any, of the quoted market price of the common stock of Sony Corporation at the grant date of the award or other measurement date over the stated exercise price of the award. As the exercise prices for Sony's stock-based compensation plans are generally determined based on the prevailing market price shortly before the date of grant, the compensation expense for these plans is not significant. For awards that generate compensation expense as defined under APB No. 25, Sony calculates the amount of compensation expense and recognizes the expense over the vesting period of the award.

The following table reflects the net effect on net income and net income per share allocated to the common stock if Sony had applied the fair value recognition provisions of FAS No. 123, Accounting for Stock-Based Compensation, to its stock-based compensation. See Note 16 for detailed assumptions.

|   | <b>Fiscal Year Ended March 31</b> |             |             |
|---|-----------------------------------|-------------|-------------|
|   | <b>2004</b>                       | <b>2005</b> | <b>2006</b> |
|   | <b>(Yen in millions)</b>          |             |             |
| <b>Income before cumulative effect of an accounting change allocated to common stock:</b>                               |                                   |             |             |
| As reported   | 90,756                            | 168,498     | 122,308     |
| Deduct: Total stock-based compensation expense determined under the fair value based method, net of related tax effects | (6,334)                           | (4,690)     | (4,182)     |
| Pro forma   | 84,422                            | 163,808     | 118,126     |
| <b>Net income allocated to common stock:</b>  |                                   |             |             |
| As reported   | 88,639                            | 163,785     | 122,308     |
| Deduct: Total stock-based compensation expense determined under the fair value based method, net of related tax effects | (6,334)                           | (4,690)     | (4,182)     |
| Pro forma   | 82,305                            | 159,095     | 118,126     |

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|  | <b>Fiscal Year Ended March 31</b> |             |             |
|--|-----------------------------------|-------------|-------------|
|  | <b>2004</b>                       | <b>2005</b> | <b>2006</b> |
|  | <b>(Yen)</b>                      |             |             |
| Income before cumulative effect of an accounting change allocated to common stock: |                                   |             |             |
| Basic EPS:   |                                   |             |             |
| As reported  | 98.26                             | 180.96      | 122.58      |
| Pro forma  | 91.40                             | 175.92      | 118.39      |
| Diluted EPS:   |                                   |             |             |
| As reported  | 89.03                             | 162.59      | 116.88      |
| Pro forma  | 82.96                             | 158.10      | 112.91      |
| Net income allocated to common stock:  |                                   |             |             |
| Basic EPS:   |                                   |             |             |
| As reported  | 95.97                             | 175.90      | 122.58      |
| Pro forma  | 89.11                             | 170.86      | 118.39      |
| Diluted EPS:   |                                   |             |             |
| As reported  | 87.00                             | 158.07      | 116.88      |
| Pro forma  | 80.94                             | 153.58      | 112.91      |

***Free distribution of common stock -***

On occasion, Sony Corporation may make a free distribution of common stock which is accounted for either by a transfer from additional paid-in capital to the common stock account or with no entry if free shares are distributed from the portion of previously issued shares in the common stock account.

Under the Japanese Commercial Code, a stock dividend can be effected by an appropriation of retained earnings to the common stock account, followed by a free share distribution with respect to the amount appropriated by resolution of the Board of Directors meeting.

Free distribution of common stock is recorded in the consolidated financial statements only when it becomes effective, except for the calculation and presentation of per share amounts.

***Stock issue costs -***

Stock issue costs are directly charged to retained earnings, net of tax, in the accompanying consolidated financial statements as the Japanese Commercial Code prohibits charging such stock issue costs to capital accounts which is the prevailing practice in the United States of America.

***Revenue recognition -***

Revenues from electronics and game sales are recognized upon delivery which is considered to have occurred when the customer has taken title to the product and the risk 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 from the theatrical exhibition of motion pictures are recognized as the customer exhibits the film. Revenues from the licensing of feature films and television programming are recorded when the material is available for telecast by the licensee and when any restrictions regarding the exhibition or exploitation of the



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product lapse. Revenues from the sale of home videocassettes and DVDs are recognized upon availability of sale to the public.

Traditional life insurance policies that the life insurance subsidiary writes, 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 endowment contracts, single payment juvenile contracts and other contracts without life contingencies are recognized as deposits to policyholder account balances and included in future insurance policy benefits and other. 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 service revenue. Property and casualty insurance policies that the non-life insurance subsidiary writes 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.

***Accounting for consideration given to a customer or a reseller -***

In accordance with EITF Issue No. 01-9, Accounting for Consideration Given by a Vendor to a Customer or Reseller of the Vendor's Products, cash consideration given to a customer or a reseller including payments for buydowns, slotting fees and cooperative advertising programs, is accounted for as a reduction of revenue unless Sony receives an identifiable benefit (goods or services) in exchange for the consideration, can reasonably estimate the fair value of this benefit and receives documentation from the reseller to support the amounts spent. Any payments meeting these criteria are treated as selling, general and administrative expenses. For the fiscal years ended March 31, 2004, 2005 and 2006, consideration given to a reseller, primarily for free promotional shipping and cooperative advertising programs included in selling, general and administrative expense totaled 30,338 million yen, 27,946 million yen and 29,489 million yen, respectively.

***Cost of sales -***

Costs classified as cost of sales relate to the producing and manufacturing of products and include such items as material cost, subcontractor cost, depreciation of fixed assets, amortization of intangible assets, personnel expenses, research and development costs, and amortization of film cost related to theatrical and television products.

***Research and development costs -***

Research and development costs are expensed as incurred.

***Selling, general and administrative -***

Costs classified as selling expense relate to the promoting and selling of products and include such items as advertising, promotion, shipping, and warranty expenses.

General and administrative expenses include operating items such as officer's 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.

Selling, general and administrative expenses are expensed as incurred.

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***Financial service expenses -***

Financial service expenses include a provision for policy reserves and amortization of deferred insurance acquisition cost, 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, except for advertising costs for acquiring new insurance policies which are deferred and amortized as part of insurance acquisition costs.

***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 integral part of producing and distributing the film under SOP 00-2, Accounting by Producers or Distributors of 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. 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. Sony records valuation allowances to reduce deferred tax assets to the amount that management believes is more likely than not to be realized. In assessing the likelihood of realization, Sony considers all currently available evidence for future years, both positive and negative, supplemented by information of historical results for each tax jurisdiction.

***Net income per share -***

Prior to December 1, 2005, Sony calculated and presented per share data separately for Sony's common stock and for the subsidiary tracking stock by the two-class method based on FAS No. 128. As the holders of the subsidiary tracking stock had the right to participate in earnings, together with common stockholders, under this method, basic net income per share (EPS) for each class of stock was calculated based on the earnings allocated to each class of stock for the applicable period, divided by the weighted-average number of outstanding shares in each class during the applicable period.

The earnings allocated to the subsidiary tracking stock were determined based on the subsidiary tracking stock holders' economic interest in the targeted subsidiary's earnings available for dividends. As defined by Sony Corporation's articles of incorporation, the amount distributable to the subsidiary tracking stock holders was based on the declared dividends of the targeted subsidiary, which might only be declared from the amounts available for dividends of the targeted subsidiary. The targeted subsidiary's earnings available for dividends were, as stipulated by the Japanese Commercial Code, not including those of the targeted subsidiary's subsidiaries. If the targeted subsidiary had accumulated losses, a change in accumulated losses was also allocated to the subsidiary tracking stock. The subsidiary tracking stock holders' economic interest was calculated as the number of the subsidiary tracking stock outstanding divided by the number of the targeted subsidiary's common stock outstanding subject to multiplying by the Standard Ratio (tracking stock: subsidiary's common stock = 1: 100, as defined in the articles of incorporation). The earnings allocated to the

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common stock were calculated by subtracting the earnings allocated to the subsidiary tracking stock from Sony's net income for the period.

On October 26, 2005, the Board of Directors of Sony Corporation decided to terminate all shares of subsidiary tracking stock and convert such shares to shares of Sony common stock at a conversion rate of 1.114 share of Sony common stock per share of subsidiary tracking stock. All shares of subsidiary tracking stock were converted to shares of Sony common stock on December 1, 2005. As a result of the conversion, for the fiscal year ended March 31, 2006, Sony calculated per share data separately for Sony's common stock and for the subsidiary tracking stock by the two-class method based on FAS No. 128, but did not present per share data for the subsidiary tracking stock. The earnings allocated to common stock for the fiscal year ended March 31, 2006 were calculated by subtracting the earnings allocated to the subsidiary tracking stock for the eight months ended November 30, 2005.

The computation of diluted net income per common stock reflects the maximum possible dilution from conversion, exercise, or contingent issuance of securities including the conversion of Co-Cos regardless of whether the conditions to exercise the conversion rights have been met.

**(3) Recent Pronouncements:*****Accounting for Stock-Based Compensation -***

In December 2004, the FASB issued FAS No. 123 (revised 2004), *Share-Based Payment* (FAS No. 123(R)). This statement requires the use of the fair value based method of accounting for employee stock-based compensation and eliminates the alternative to use of the intrinsic value method prescribed by APB No. 25. With limited exceptions, FAS No. 123(R) requires that the grant-date fair value of share-based payments to employees be expensed over the period the service is received. Sony has accounted for its employee stock-based compensation in accordance with the provisions prescribed by APB No. 25 and its related interpretations and has disclosed the net effect on net income and net income per share allocated to the common stock if Sony had applied the fair value recognition provisions of FAS No. 123 to stock-based compensation as described above in (2) Significant accounting policies - Stock-based compensation. Sony adopted FAS No. 123(R) on April 1, 2006. Sony has elected the modified prospective method of transition prescribed in FAS No. 123(R), which requires that compensation expense be recorded for all unvested stock acquisition rights as the requisite service is rendered beginning with the first period of adoption. As of March 31, 2006, the aggregate value of the unvested stock acquisition rights was 4,402 million yen. Sony expects the total expenses to be recorded in the future periods will be consistent with the pro forma information shown above in (2) Significant accounting policies - Stock-based compensation.

***Inventory Costs -***

In November 2004, the FASB issued FAS No. 151, *Inventory Costs*, an amendment of ARB No. 43, Chapter 4. This statement requires certain abnormal expenditures to be recognized as expenses in the current period. It also requires that the amount of fixed production overhead allocated to the costs of conversion be based on the normal capacity of the production facilities. This statement shall be effective for fiscal years beginning after June 15, 2005, with early adoption during the fiscal years beginning after the date this statement is issued encouraged. The adoption of FAS No. 151 is not expected to have a material impact on Sony's results of operations and financial position.

***Derivative instruments and hedging activities -***

In February 2006, the FASB issued FAS No. 155, *Accounting for Certain Hybrid Financial Instruments*, an amendment of FAS No. 133 and FAS No. 140. This statement permits an entity to elect fair value remeasurement for any hybrid financial instrument if the hybrid instrument contains an embedded

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derivative that would otherwise be required to be bifurcated and accounted for separately under FAS No. 133. The election to measure the hybrid instrument at fair value is made on an instrument-by-instrument basis and is irreversible. The statement will be effective for all financial instruments acquired, issued, or subject to a remeasurement event occurring after the beginning of an entity's fiscal years beginning after September 15, 2006, with earlier adoption permitted as of the beginning of fiscal year, provided that financial statements for any interim period of that fiscal year have not been issued. The adoption of FAS No. 155 is not expected to have material impact on Sony's results of operations and financial position.

**Accounting for Servicing of Financial Assets -**

In March 2006, the FASB issued FAS No. 156, *Accounting for Servicing of Financial Assets* an amendment of FASB Statement No. 140. This statement amends FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* with respect to the accounting for separately recognized servicing assets and servicing liabilities. This statement shall be effective for fiscal years beginning after September 15, 2006. Sony is currently evaluating the impact of adopting this new pronouncement.

**(4) Reclassifications:**

Certain reclassifications of the financial statements for the fiscal years ended March 31, 2004 and 2005 have been made to conform to the presentation for the fiscal year ended March 31, 2006.

**3. Inventories**

Inventories comprise the following:

|  | <b>March 31</b>          |             |
|--|--------------------------|-------------|
|  | <b>2005</b>              | <b>2006</b> |
|  | <b>(Yen in millions)</b> |             |
| Finished products                                | 405,616                  | 534,766     |
| Work in process                                  | 93,181                   | 123,381     |
| Raw materials, purchased components and supplies | 132,552                  | 146,577     |
|  | 631,349                  | 804,724     |

**4. Film costs**

Film costs comprise the following:

|  | <b>March 31</b>          |             |
|--|--------------------------|-------------|
|  | <b>2005</b>              | <b>2006</b> |
|  | <b>(Yen in millions)</b> |             |
| <b>Theatrical:</b>                           |                          |             |
| Released (including acquired film libraries) | 119,438                  | 153,992     |
| Completed not released                       | 11,358                   | 13,377      |
| In production and development                | 118,271                  | 156,019     |
| <b>Television licensing:</b>                 |                          |             |
| Released (including acquired film libraries) | 29,894                   | 36,918      |
| In production and development                |                          | 66          |

278,961 360,372

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Sony estimates that approximately 88% of unamortized costs of released films (excluding amounts allocated to acquired film libraries) at March 31, 2006 will be amortized within the next three years. Approximately 102,207 million yen of released film costs are expected to be amortized during the next twelve months. As of March 31, 2006, unamortized acquired film libraries of approximately 10,820 million yen remained to be amortized on a straight-line basis over an average of the remaining life of 4 years. Approximately 137,400 million yen of accrued participation liabilities included in accounts payable, other and accrued expenses are expected to be paid during the next twelve months.

**5. Related party transactions**

Sony accounts for its investments in affiliated companies over which Sony has significant influence or ownership of 20% or more but less than or equal to 50% 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. Such investments include but are not limited to Sony's interest in Sony Ericsson Mobile Communications, AB (50%), SONY BMG MUSIC ENTERTAINMENT (SONY BMG) (50%), S-LCD Corporation (S-LCD) (50% minus 1 share), ST Liquid Crystal Display Corporation (50%), InterTrust Technologies Corporation (49.5%), MGM Holdings, Inc. (MGM Holdings) (20%), bit Wallet, Inc (34.6%), and STAR CHANNEL, INC. (17.8%).

Summarized combined financial information that is based on information provided by equity investees is shown below:

|   | <b>March 31</b>          |               |
|---|--------------------------|---------------|
|   | <b>2005</b>              | <b>2006</b>   |
|   | <b>(Yen in millions)</b> |               |
| Current assets                                    | 942,328                  | 991,440       |
| Property, plant and equipment                     | 361,406                  | 376,155       |
| Other assets                                      | 250,245                  | 903,873       |
| <br>Total assets                                  | <br>1,553,979            | <br>2,271,468 |
| Current liabilities                               | 876,430                  | 1,009,895     |
| Long-term liabilities                             | 115,999                  | 660,504       |
| Stockholders' equity                              | 561,550                  | 601,069       |
| <br>Total liabilities and stockholders' equity    | <br>1,553,979            | <br>2,271,468 |
| <br>Number of companies at end of the fiscal year | <br>56                   | <br>58        |

|                   | <b>Fiscal Year Ended March 31</b> |             |             |
|-------------------|-----------------------------------|-------------|-------------|
|                   | <b>2004</b>                       | <b>2005</b> | <b>2006</b> |
|                   | <b>(Yen in millions)</b>          |             |             |
| Sales and revenue | 1,009,005                         | 1,473,273   | 2,357,172   |
| Gross profit      | 231,083                           | 477,796     | 668,226     |

|            |        |        |        |
|------------|--------|--------|--------|
| Net income | 11,323 | 63,404 | 32,982 |
|------------|--------|--------|--------|

S-LCD, a joint venture with Samsung Electronics Co., LTD focused on manufacturing amorphous TFT panel, was established in April 2004 as a joint venture in which Sony has an ownership interest of 50% minus 1 share. Sony invested 100,073 million yen in S-LCD during the fiscal year ended March 31, 2005.

As of August 1, 2004, Sony combined its recorded music business, except for the operations of its recorded music business in Japan, with the recorded music business of Bertelsmann AG in a joint venture. The newly formed company, known as SONY BMG, is 50% owned by each parent company. As a result, the

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

results of the recorded music business, except for the recorded music business in Japan, are no longer consolidated but are accounted for under the equity method.

On April 8, 2005, a consortium led by Sony Corporation of America ( SCA ) and its equity partners, Providence Equity Partners, Texas Pacific Group, Comcast Corporation and DLJ Merchant Banking Partners, completed the acquisition of Metro-Goldwyn-Mayer Inc. ( MGM ). Under the terms of the acquisition agreement, the aforementioned investor group acquired MGM for 12.00 U.S. dollars in cash per MGM share, for a total purchase price of approximately 5.0 billion U.S. dollars. In conjunction with the acquisition, Sony Pictures Entertainment ( SPE ) entered into agreements to co-finance and produce new motion pictures with MGM, and to distribute MGM's existing film and television content through SPE's global distribution channels. MGM continues to operate under the Metro-Goldwyn-Mayer name as a private company, headquartered in Los Angeles, focused on new film production and distribution activities. As part of the acquisition, SCA invested 257 million U.S. dollars for 20% of the total equity capital, which includes both common stock and a significant amount of non-voting preferred stock with detachable common stock warrants. Though Sony owns 20% of MGM Holdings' total equity on a fully diluted basis as a result of the warrants dilution, Sony owns 45% of the total outstanding common stock and therefore, records 45% of MGM Holdings' net income (loss) as equity in net income of affiliated companies.

In September 2005, Sony sold 230,000 shares of Monex Beans Holdings, Inc. As a result of this sale, Sony's ownership interest has been reduced from 20.1% to 10.3%. Therefore, Monex Beans Holdings, Inc. is no longer accounted for under the equity method. The financial position and operating results of Monex Beans Holdings, Inc. as of and for the fiscal year ended March 31, 2006 are not included in the above summarized combined financial information. See Note 19 for more information on this transaction.

The proportionate share in the underlying net assets of the investee exceeded the carrying value of investments in affiliated companies by 42,731 million yen and 36,875 million yen at March 31, 2005 and 2006, respectively. These differences primarily relate to the differences in the carrying value of the net assets contributed by Sony and Bertelsmann AG upon the formation of SONY BMG in August 2004. The contribution of assets to SONY BMG was accounted for at book value. Acquisitions by Bertelsmann AG's recorded music business shortly prior to the formation of SONY BMG resulted in goodwill comprising a significant portion of the assets contributed to SONY BMG by Bertelsmann AG, whereas Sony's contributed assets had a lower historical basis. As a result, Sony's carrying value of the investment in SONY BMG is below its 50% share of the underlying assets of SONY BMG. As the contributions for both Sony and Bertelsmann AG were recorded at historical book value by SONY BMG, there is a basis difference attributable to a non-depreciable asset which is not being amortized. Differences in the carrying value of Sony's other equity investments and the proportionate share of the fair value of underlying net assets primarily relates to unamortizable goodwill.

Affiliated companies accounted for under the equity method with an aggregate carrying amount of 17,676 million yen and 4,588 million yen at March 31, 2005 and 2006, were quoted on established markets at an aggregate value of 95,246 million yen and 34,462 million yen, respectively.



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Account balances and transactions with affiliated companies accounted for under the equity method are presented below:

|                            | <b>March 31</b>          |             |
|----------------------------|--------------------------|-------------|
|                            | <b>2005</b>              | <b>2006</b> |
|                            | <b>(Yen in millions)</b> |             |
| Accounts receivable, trade | 50,062                   | 44,837      |
| Advances                   | 16,756                   | 15,985      |
| Accounts payable, trade    | 15,225                   | 40,507      |

|           | <b>Fiscal Year Ended March 31</b> |             |             |
|-----------|-----------------------------------|-------------|-------------|
|           | <b>2004</b>                       | <b>2005</b> | <b>2006</b> |
|           | <b>(Yen in millions)</b>          |             |             |
| Sales     | 258,454                           | 256,799     | 234,636     |
| Purchases | 106,100                           | 101,976     | 282,071     |

As of April 1, 2004, Sony Corporation made Sony Computer Entertainment Inc. ( SCE ) a wholly-owned subsidiary through a stock for stock exchange pursuant to the provision of Article 358 of the Japanese Commercial Code which does not require the approval of the General Meeting of Shareholders. The stock for stock exchange ratio was determined based on the estimated equity values of SCE and Sony on a consolidated basis. Through the stock for stock exchange, Sony Corporation provided 1,000,000 shares of its common stock to the then Executive Deputy President, Corporate Executive Officer of Sony Corporation who had owned 100 shares of SCE 's common stock. This transaction did not have a material impact on Sony 's results of operations and financial position for the fiscal year ended March 31, 2005.

Dividends from affiliated companies accounted for under the equity method for the fiscal years ended March 31, 2004, 2005 and 2006 were 3,446 million yen, 13,391 million yen and 22,970 million yen, respectively.

**6. Accounts receivable securitization programs**

In Japan, Sony set up several accounts receivable sales programs whereby Sony can sell up to 47,500 million yen of eligible trade accounts receivable. 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. These transactions are accounted for as sales in accordance with FAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities , because Sony has relinquished control of the receivables. The initial sale of these receivables was in March 2005 in which Sony sold a total of 10,041 million yen. Sony sold a total of 146,193 million yen of receivables during the fiscal year ended March 31, 2006. Losses from these transactions were insignificant. Although Sony continues servicing the sold receivables, no servicing liabilities are recorded because costs for collection of the sold receivables are insignificant.

Through May 2005, Sony had set up an accounts receivable securitization program in the United States of America whereby Sony could sell interests in up to 500 million U.S. dollars of eligible trade accounts receivable, as defined. Through this program, Sony could securitize and sell a percentage of an undivided interest in that pool of receivables to several multi-seller commercial paper conduits owned and operated by a bank. Sony could sell receivables in which the agreed upon original due dates were no more than 90 days after the invoice dates. The value assigned to undivided interests retained in securitized trade receivables was based on the relative fair values of the interest retained and sold in the securitization. Sony had assumed that the fair value of the retained interest was equivalent to its carrying value as the receivables were short-term in nature,

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**SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

high quality and had appropriate reserves for bad debt incidence. These securitization transactions were accounted for as a sale in accordance with FAS No. 140, because Sony had relinquished control of the receivables. During the period from April 2004 to January 2005, Sony sold a total of 80,250 million yen of accounts receivable under this program. There were no outstanding amounts due at March 31, 2005 relating to the existing undivided interests in the pool of receivables that had been sold. Losses from these transactions were insignificant. This program was terminated in May 2005.

**7. Marketable securities and securities investments and other**

Marketable securities and securities investments and other include 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:

|                             | March 31, 2005   |                              |                               |                  | March 31, 2006   |                              |                               |                  |
|-----------------------------|------------------|------------------------------|-------------------------------|------------------|------------------|------------------------------|-------------------------------|------------------|
|                             | Cost             | Gross<br>unrealized<br>gains | Gross<br>unrealized<br>losses | Fair value       | Cost             | Gross<br>unrealized<br>gains | Gross<br>unrealized<br>losses | Fair value       |
| (Yen in millions)           |                  |                              |                               |                  |                  |                              |                               |                  |
| Available-for-sale:         |                  |                              |                               |                  |                  |                              |                               |                  |
| Debt securities             | 2,090,605        | 58,161                       | (2,464)                       | 2,146,302        | 2,522,864        | 17,021                       | (22,810)                      | 2,517,075        |
| Equity securities           | 107,126          | 49,350                       | (814)                         | 155,662          | 227,079          | 171,921                      | (1,589)                       | 397,411          |
| Held-to-maturity Securities | 27,431           | 530                          | (13)                          | 27,948           | 33,193           | 132                          | (221)                         | 33,104           |
| <b>Total</b>                | <b>2,225,162</b> | <b>108,041</b>               | <b>(3,291)</b>                | <b>2,329,912</b> | <b>2,783,136</b> | <b>189,074</b>               | <b>(24,620)</b>               | <b>2,947,590</b> |

At March 31, 2006, debt securities classified as available-for-sale securities and held-to-maturity securities mainly consist of Japanese government and municipal bonds and corporate debt securities with maturities of one to ten years.

Proceeds from sales of available-for-sale securities were 397,817 million yen, 613,035 million yen and 524,268 million yen for the fiscal years ended March 31, 2004, 2005 and 2006, respectively. On those sales, gross realized gains computed on the average cost basis were 9,525 million yen, 24,080 million yen and 68,096 million yen and gross realized losses were 1,906 million yen, 5,940 million yen and 3,143 million yen, respectively.

Marketable securities classified as trading securities at March 31, 2005 and 2006 were 315,946 million yen and 401,561 million yen, respectively, which consist of debt and equity securities including short-term investments in money market funds.

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, 2005 and 2006, were 48,877 million yen and 59,575 million yen, respectively. Non-public equity investments are valued at cost as fair value is not readily determinable. If the value is estimated to have declined and such decline is judged to be other than temporary, the impairment of the investment is recognized and the carrying value is reduced to its fair value.

For the fiscal years ended March 31, 2004, 2005 and 2006, Sony booked 4,988 million yen, 5,696 million yen and 45,092 million yen of net unrealized gain on trading securities primarily in the life insurance business.



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The following table presents 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, 2006.

|                             | Less than 12 Months |                   | 12 months or More |                   | Total            |                   |
|-----------------------------|---------------------|-------------------|-------------------|-------------------|------------------|-------------------|
|                             | Fair value          | Unrealized losses | Fair value        | Unrealized losses | Fair value       | Unrealized losses |
| (Yen in millions)           |                     |                   |                   |                   |                  |                   |
| Available-for-sale:         |                     |                   |                   |                   |                  |                   |
| Debt securities             | 1,860,204           | (22,590)          | 21,250            | (220)             | 1,881,454        | (22,810)          |
| Equity securities           | 266,946             | (1,108)           | 17,495            | (481)             | 284,441          | (1,589)           |
| Held-to-maturity Securities | 20,278              | (208)             | 629               | (13)              | 20,907           | (221)             |
| <b>Total</b>                | <b>2,147,428</b>    | <b>(23,906)</b>   | <b>39,374</b>     | <b>(714)</b>      | <b>2,186,802</b> | <b>(24,620)</b>   |

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 a period of up to six to twelve months). This criteria 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.

At March 31, 2006, 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. Leased assets**

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.

An analysis of leased assets under capital leases is as follows:

| Class of property               | March 31          |          |
|---------------------------------|-------------------|----------|
|                                 | 2005              | 2006     |
|                                 | (Yen in millions) |          |
| Land                            | 181               | 193      |
| Buildings                       | 11,089            | 7,437    |
| Machinery, equipment and others | 33,747            | 28,870   |
| Accumulated depreciation        | (18,509)          | (14,820) |
|                                 | 26,508            | 21,680   |



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**SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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, 2006:

|  | <b>Yen in<br/>millions</b> |
|--|----------------------------|
| <b>Fiscal Year Ending March 31:</b>                |                            |
| 2007   | 18,322                     |
| 2008   | 9,650                      |
| 2009   | 5,325                      |
| 2010   | 3,081                      |
| 2011   | 2,149                      |
| Later years  | 4,725                      |
| <b>Total minimum lease payments</b>                | <b>43,252</b>              |
| <b>Less Amount representing interest</b>           | <b>4,972</b>               |
| <b>Present value of net minimum lease payments</b> | <b>38,280</b>              |
| <b>Less Current obligations</b>                    | <b>16,966</b>              |
| <b>Long-term capital lease obligations</b>         | <b>21,314</b>              |

Minimum lease payments have not been reduced by minimum sublease income of 10,022 million yen due in the future under noncancelable subleases.

Minimum rental expenses under operating leases for the fiscal years ended March 31, 2004, 2005 and 2006 were 92,649 million yen, 81,391 million yen and 80,014 million yen, respectively. Sublease rentals received under operating leases for the fiscal years ended March 31, 2004, 2005 and 2006 were 2,923 million yen, 1,933 million yen and 1,350 million yen, respectively. The total minimum rentals to be received in the future under noncancelable subleases as of March 31, 2006 were 21,843 million yen.

The minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year at March 31, 2006 are as follows:

|                                     | <b>Yen in<br/>millions</b> |
|-------------------------------------|----------------------------|
| <b>Fiscal Year Ending March 31:</b> |                            |
| 2007                                | 47,500                     |
| 2008                                | 34,715                     |
| 2009                                | 26,529                     |
| 2010                                | 16,320                     |
| 2011                                | 11,541                     |
| Later years                         | 58,932                     |
| <b>Total minimum future rentals</b> | <b>195,537</b>             |

**9. *Goodwill and intangible assets***

Intangible assets acquired during the fiscal year ended March 31, 2006 totaled 36,237 million yen, which are subject to amortization and primarily consist of acquired patent rights of 9,922 million yen and software to be sold, leased or otherwise marketed of 17,653 million yen. The weighted average amortization period for

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**SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

acquired patent rights and software to be sold, leased or otherwise marketed is 8 years and 3 years, respectively.

Intangible assets subject to amortization comprise the following:

|   | <b>March 31</b>                      |                                     |                                      |                                     |
|---|--------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|
|   | <b>2005</b>                          |                                     | <b>2006</b>                          |                                     |
|   | <b>Gross<br/>carrying<br/>amount</b> | <b>Accumulated<br/>amortization</b> | <b>Gross<br/>carrying<br/>amount</b> | <b>Accumulated<br/>amortization</b> |
|   | <b>(Yen in millions)</b>             |                                     |                                      |                                     |
| Artist contracts                                  | 15,218                               | (11,094)                            | 15,218                               | (12,218)                            |
| Music catalog                                     | 65,674                               | (19,641)                            | 71,921                               | (24,012)                            |
| Acquired patent rights                            | 55,173                               | (26,139)                            | 67,467                               | (30,200)                            |
| Software to be sold, leased or otherwise marketed | 31,907                               | (16,181)                            | 40,007                               | (24,194)                            |
| Other   | 27,648                               | (11,625)                            | 40,978                               | (15,133)                            |
| <b>Total</b>                                      | <b>195,620</b>                       | <b>(84,680)</b>                     | <b>235,591</b>                       | <b>(105,757)</b>                    |

The aggregate amortization expenses for intangible assets for the fiscal years ended March 31, 2004, 2005 and 2006 was 28,866 million yen, 24,993 million yen and 28,390 million yen, respectively. The estimated aggregate amortization expense for intangible assets for the next five years is as follows:

|                              | <b>(Yen in<br/>millions)</b> |
|------------------------------|------------------------------|
| <b>Year Ending March 31,</b> |                              |
| 2007                         | 31,636                       |
| 2008                         | 24,862                       |
| 2009                         | 18,857                       |
| 2010                         | 15,593                       |
| 2011                         | 9,125                        |

Total carrying amount of intangible assets having an indefinite life comprise the following:

|                        | <b>March 31</b>          |               |
|------------------------|--------------------------|---------------|
|                        | <b>2005</b>              | <b>2006</b>   |
|                        | <b>(Yen in millions)</b> |               |
| Trademarks             | 57,195                   | 58,195        |
| Distribution agreement | 18,848                   | 18,848        |
|                        | <b>76,043</b>            | <b>77,043</b> |



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**SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The changes in the carrying amount of goodwill by operating segment for the fiscal years ended March 31, 2005 and 2006 are as follows:

|  | Electronics | Game    | Pictures | Financial<br>Services | All<br>Other | Total    |
|--|-------------|---------|----------|-----------------------|--------------|----------|
| (Yen in millions)  |             |         |          |                       |              |          |
| Balance at March 31, 2004  | 52,236      | 110,362 | 70,789   |                       | 44,483       | 277,870  |
| Reallocated from Music business to<br>Electronics segment        | 12,329      |         |          |                       | (12,329)     |          |
| Goodwill acquired during year                                    | 5,872       | 4,349   | 5,868    | 441                   | 2,121        | 18,651   |
| Goodwill contributed to the Joint<br>Venture with Bertelsmann AG |             |         |          |                       | (15,626)     | (15,626) |
| Other *  | 378         | 29      | 1,277    |                       | 1,344        | 3,028    |
| Balance at March 31, 2005  | 70,815      | 114,740 | 77,934   | 441                   | 19,993       | 283,923  |
| Goodwill acquired during year                                    | 3,337       | 1,317   | 947      | 536                   | 382          | 6,519    |
| Reallocated from Music business to<br>Electronics segment        | 634         |         |          |                       | (634)        |          |
| Impairment losses  |             |         |          |                       | (534)        | (534)    |
| Other *  | 1,577       | 207     | 7,031    |                       | 301          | 9,116    |
| Balance at March 31, 2006  | 76,363      | 116,264 | 85,912   | 977                   | 19,508       | 299,024  |

\* Other consists of translation adjustments and reclassification to/from other accounts.

As discussed in Notes 5 and 24, as of August 1, 2004, Sony and Bertelsmann AG combined their recorded music business in a joint venture. In connection with the establishment of the joint venture, assets contributed by Sony included 15,626 million yen of goodwill. In addition, the non-Japan based disc manufacturing and physical distribution businesses, formerly included within the Music segment, have been reclassified to the Electronics segment and accordingly, Sony reallocated 12,329 million yen of goodwill relating to the non-Japan based disc manufacturing and physical distribution business from the Music segment to the Electronics segment. Effective April 1, 2005, a similar change was made with respect to the Japan based disc manufacturing businesses and accordingly, Sony reallocated 634 million yen of goodwill from the Music segment to the Electronics segment. Consistent with the presentation of business segment information in Note 24, the Music segment is included within All Other.

During the year ended March 31, 2006, Sony performed the annual impairment test for goodwill and recorded an impairment loss of 534 million yen in a reporting unit included in All Other. This impairment charge reflected the overall decline in the fair value of a subsidiary. The fair value of the subsidiary was estimated principally using the expected present value of future cash flows.

#### **10. Insurance-related accounts**

Sony's life and non-life insurance 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 United States of America 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

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**SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

assumptions for U.S. GAAP purposes. For purposes of preparing the consolidated financial statements, appropriate adjustments have been made to reflect such items in accordance with U.S. GAAP.

The amounts of statutory net equity of the subsidiaries as of March 31, 2005 and 2006 were 153,228 million yen and 229,543 million yen, respectively.

**(1) Insurance policies:**

Life insurance policies that the life insurance subsidiary writes, 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, 2004, 2005 and 2006 were 437,835 million yen, 426,774 million yen and 453,496 million yen, respectively. Property and casualty insurance policies that the non-life insurance subsidiary writes are primarily automotive insurance contracts which are categorized as short-duration contracts. The non-life insurance revenues for the fiscal years ended March 31, 2004, 2005 and 2006 were 28,371 million yen, 35,454 million yen and 42,743 million yen, respectively.

**(2) Deferred insurance acquisition costs:**

Insurance acquisition costs, including such items as commission, medical examination and inspection report fees, that vary with and are primarily related to acquiring new insurance policies are deferred as long as they are recoverable. 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, 2004, 2005 and 2006 amounted to 50,492 million yen, 47,120 million yen and 42,933 million yen, respectively.

**(3) Future insurance policy benefits:**

Liabilities for future policy benefits are established in amounts adequate to meet the estimated future obligations of policies in force. These liabilities are computed by the net level premium method based upon estimates as to future investment yield, mortality, morbidity and withdrawals. Future policy benefits are computed using interest rates ranging from approximately 0.90% to 5.10%. Mortality, morbidity and withdrawal assumptions for all policies are based on either the subsidiary's own experience or various actuarial tables. At March 31, 2005 and 2006, future insurance policy benefits amounted to 1,782,850 million yen and 1,901,716 million yen, respectively.

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**SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**11. Short-term borrowings and long-term debt**

Short-term borrowings comprise the following:

|  | <b>March 31</b>          |             |
|--|--------------------------|-------------|
|  | <b>2005</b>              | <b>2006</b> |
|  | <b>(Yen in millions)</b> |             |
| Unsecured loans, principally from banks:     |                          |             |
| with weighted-average interest rate of 2.79% | 38,796                   |             |
| with weighted-average interest rate of 3.63% |                          | 32,066      |
| Secured call money:                          |                          |             |
| with weighted-average interest rate of 0.01% |                          | 40,000      |
| Secured bills sold:                          |                          |             |
| with weighted-average interest rate of 0.00% | 24,600                   |             |
| with weighted-average interest rate of 0.01% |                          | 70,700      |
|  | 63,396                   | 142,766     |

At March 31, 2006, marketable securities and securities investments with a book value of 119,598 million yen were pledged as collateral for call money and bills sold by a Japanese bank subsidiary.

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**SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Long-term debt comprises the following:

|  | <b>March 31</b>          |             |
|--|--------------------------|-------------|
|  | <b>2005</b>              | <b>2006</b> |
|  | <b>(Yen in millions)</b> |             |
| <b>Secured loans, representing obligations to banks:</b>   |                          |             |
| Due 2005 to 2008 with interest of 2.20% per annum  | 1,122                    |             |
| <b>Unsecured loans, representing obligations principally to banks:</b>   |                          |             |
| Due 2005 to 2017 with interest ranging from 0.23% to 5.89% per annum   | 113,436                  |             |
| Due 2006 to 2015 with interest ranging from 0.13% to 5.89% per annum   |                          | 128,148     |
| <b>Medium-term notes of consolidated subsidiaries:</b>   |                          |             |
| Due 2006 with interest ranging from 2.78% to 4.95% per annum   | 58,755                   |             |
| Due 2006 with interest of 4.95% per annum  |                          | 58,698      |
| Unsecured zero coupon convertible bonds, due 2008, convertible currently at 5,605 yen for one common share, redeemable before due date | 250,000                  | 250,000     |
| Unsecured 0.1% bonds, due 2005 with detachable warrants, net of unamortized discount   | 3,981                    |             |
| Unsecured 1.55% bonds, due 2006 with detachable warrants   | 12,000                   | 12,000      |
| Unsecured 0.9% bonds, due 2007 with detachable warrants  | 7,300                    | 7,300       |
| Unsecured 0.9% bonds, due 2007 with detachable warrants  | 150                      | 150         |
| Unsecured 1.42% bonds, due 2005, net of unamortized discount   | 99,998                   |             |
| Unsecured 0.64% bonds, due 2006, net of unamortized discount   | 99,996                   | 99,999      |
| Unsecured 1.01% bonds, due 2010, net of unamortized discount   |                          | 39,996      |
| Unsecured 2.04% bonds, due 2010, net of unamortized discount   | 49,984                   | 49,987      |
| Unsecured 0.80% bonds, due 2010, net of unamortized discount   |                          | 49,991      |
| Unsecured 1.52% bonds, due 2011, net of unamortized discount   | 49,997                   | 49,997      |
| Unsecured 1.16% bonds, due 2012, net of unamortized discount   |                          | 39,981      |
| Unsecured 1.52% bonds, due 2013, net of unamortized discount   |                          | 34,997      |
| Unsecured 1.57% bonds, due 2015, net of unamortized discount   |                          | 29,980      |
| Unsecured 1.75% bonds, due 2015, net of unamortized discount   |                          | 24,993      |
| Unsecured 2.0% bonds, due 2005   | 15,000                   |             |
| Unsecured 1.99% bonds, due 2007  | 15,000                   | 15,000      |
| Unsecured 2.35% bonds, due 2010  | 4,900                    | 4,900       |
| <b>Capital lease obligations:</b>  |                          |             |
| Due 2005 to 2019 with interest ranging from 1.55% to 30.00% per annum  | 40,301                   |             |
| Due 2006 to 2019 with interest ranging from 1.45% to 16.00% per annum  |                          | 38,280      |
| Guarantee deposits received  | 23,942                   | 24,056      |
|  | 845,862                  | 958,453     |
| Less Portion due within one year   | 166,870                  | 193,555     |
|  | 678,992                  | 764,898     |

There are no adverse debt covenants or cross-default provisions relating to Sony's borrowings.





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**SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

A summary of the exercise rights of the detachable warrants as of March 31, 2006 is as follows:

| Issued on         | Exercisable during                        | Exercise price |         | Number of shares per warrant                   | Status of exercise          |
|-------------------|---|----------------|---------|--|-----------------------------|
|                   |   | Yen            | Dollars |  |                             |
| October 19, 2000  | November 1, 2001 through October 18, 2006 | 12,457         | 106     | 100 shares of common stock of Sony Corporation | 9,224 warrants outstanding  |
| December 21, 2001 | January 6, 2003 through December 20, 2007 | 6,039          | 52      | 100 shares of common stock of Sony Corporation | 11,459 warrants outstanding |

Aggregate amounts of annual maturities of long-term debt during the next five years are as follows:

| Fiscal Year Ending March 31 | (Yen in millions) |
|-----------------------------|-------------------|
| 2007                        | 193,555           |
| 2008                        | 32,781            |
| 2009                        | 285,924           |
| 2010                        | 66,431            |
| 2011                        | 110,762           |

At March 31, 2006, Sony had unused committed lines of credit amounting to 676,449 million yen and can generally borrow up to 90 days from the banks with whom Sony has committed line contracts. Furthermore, Sony has Commercial Paper Programs, the size of which was 1,321,940 million yen. There was no commercial paper outstanding at March 31, 2006. Under those programs, Sony can issue commercial paper for the period generally not in excess of 270 days up to the size of the programs. In addition, Sony has Medium Term Notes programs, the size of which was 587,100 million yen. At March 31, 2006, the total outstanding balance of Medium Term Notes was 58,698 million yen.

**12. Deposits from customers in the banking business**

All deposits from customers in the banking business are interest bearing deposits, and are owned by a Japanese bank subsidiary which was established as an Online Internet bank for individuals. At March 31, 2005 and 2006, the balance of time deposits issued in amounts of 10 million yen or more were 67,387 million yen and 75,459 million yen, respectively. At March 31, 2006, 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) |
|-----------------------------|-------------------|
| 2008                        | 30,568            |
| 2009                        | 20,657            |
| 2010                        | 200               |
| 2011                        | 6,637             |
| 2012                        | 38                |

**13. *Financial instruments***

**(1) *Derivative instruments and hedging activities:***

Sony has certain financial instruments including financial assets and liabilities incurred 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

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**SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

of reducing such risk, Sony uses derivative financial instruments, which include foreign exchange forward contracts, foreign currency option contracts, and interest rate and currency swap agreements. Foreign exchange forward contracts and 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. Interest rate and currency 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 the fair value. 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. Although Sony may be exposed to losses in the event of nonperformance by counterparties or unfavorable interest and currency rate movements, it does not anticipate significant losses due to the nature of Sony's counterparties or the hedging arrangements. These derivatives generally mature or expire within 6 months after the balance sheet date. Sony does not use these derivative financial instruments for trading or speculative purposes except for certain derivatives utilized for portfolio investments such as interest rate swap agreements and bond future contracts in the Financial Services segment. These derivative transactions utilized for portfolio investments in the Financial Services segment are executed within a certain limit in accordance with an internal risk management policy.

Derivative financial instruments held by Sony are classified and accounted for as described below pursuant to FAS No. 133.

***Fair value hedges***

The derivatives designated as fair value hedges include interest rate and currency swap agreements.

Both the derivatives designated as fair value hedges and the hedged items are reflected at fair value in the consolidated balance sheet. 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, 2004 and 2005, the amount of ineffectiveness of these fair value hedges, that was reflected in earnings, was not material. For the fiscal year ended March 31, 2006, 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***

The derivatives designated as cash flow hedges include foreign exchange forward contracts, foreign currency option contracts and interest rate and currency swap agreements.

Changes in the fair value of derivatives designated as cash flow hedges are initially recorded in other comprehensive income and reclassified into earnings when the hedged transaction affects earnings. For the fiscal years ended March 31, 2004 and 2006, these cash flow hedges were fully effective. For the fiscal year ended March 31, 2005, the amount of ineffectiveness of these cash flow hedges that was reflected in earnings was not material. In addition, there were no amounts excluded from the assessment of hedge effectiveness of cash flow hedges. At March 31, 2006, amounts related to derivatives qualifying as cash flow hedges amounted to a net reduction of equity of 2,049 million yen. Within the next twelve months, 1,453 million yen is expected to be reclassified from equity into earnings as loss. For the fiscal year ended March 31, 2006, there were no forecasted transactions that failed to occur which resulted in the discontinuance of cash flow hedges.

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**SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Derivatives not designated as hedges***

The derivatives not designated as hedges under FAS No. 133 include foreign exchange forward contracts, foreign currency option contracts, interest rate and currency swap agreements, interest rate and bond future contracts, stock price index option contracts, convertible rights included in convertible bonds and other derivatives. 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***

Sony enters into foreign exchange forward contracts and purchased and written foreign currency option contracts primarily to fix the cash flows from intercompany accounts receivable and payable and forecasted transactions denominated in functional currencies (Japanese yen, U.S. dollars and euros) of Sony's major operating units. 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 in accordance with FAS No. 133.

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 and foreign currency option contracts held by certain subsidiaries in the Financial Services segment are marked-to-market with changes in value recognized in financial service revenue.

***Interest rate and currency swap agreements***

Sony enters into interest rate and currency swap agreements, which are used for reducing the risk arising from the changes in the fair value of fixed rate debt and available-for-sale debt securities. For example, Sony enters into interest rate and currency swap agreements, which effectively swap foreign currency denominated fixed rate debt for functional currency denominated variable rate debt. These derivatives are considered to be a hedge against changes in the fair value of Sony's foreign denominated fixed-rate obligations. Accordingly, these derivatives have been designated as fair value hedges in accordance with FAS No. 133.

Sony also enters into interest rate and currency swap agreements that are used for reducing the risk arising from the changes in anticipated cash flow of variable rate debt and foreign currency denominated debt. For example, Sony enters into interest rate and currency swap agreements, which effectively swap foreign currency denominated variable rate debt for functional currency denominated fixed rate debt. These derivatives are considered to be a hedge against changes in the anticipated cash flow of Sony's foreign denominated variable rate obligations. Accordingly, these derivatives have been designated as cash flow hedges in accordance with FAS No. 133.

Certain subsidiaries in the Financial Services segment have interest rate swap agreements as part of their portfolio investments, which are marked-to-market with changes in value recognized in financial service revenue. Interest rate and currency swap agreements held by certain subsidiaries in the Financial Services segment are also marked-to-market with changes in value recognized in financial service revenue.

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**SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Any other interest rate and currency 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.

***Interest rate and bond future contracts***

Certain subsidiaries in the Financial Services segment have interest rate and bond future contracts as part of their portfolio investments, which are marked-to-market with changes in value recognized in financial service revenue.

***Stock price index option contracts***

Certain subsidiaries in the Financial Services segment have stock price index option contracts as part of their portfolio investments, which are marked-to-market with changes in value recognized in financial service revenue.

***Embedded derivatives***

Changes in the fair value of embedded derivatives that must be separated from the host contracts and accounted for as derivative instruments under FAS No. 133 are recognized in income. For example, the convertible rights included in convertible bonds held by Sony's life insurance subsidiary, which are classified as available-for-sale debt securities, are considered embedded derivatives and are marked-to-market with changes in value recognized in financial service revenue.

**(2) Fair value of financial instruments:**

The estimated fair values of Sony's financial instruments are summarized as follows. The following summary excludes cash and cash equivalents, time deposits, notes and accounts receivable, trade, short-term borrowings, notes and accounts payable, trade and deposits from customers in the banking business that are

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**SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
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carried at amounts which approximate fair value. The summary also excludes debt and equity securities which are disclosed in Note 7.

| <b>March 31</b>                              |                            |                            |                                 |                            |                            |                                 |
|--|----------------------------|----------------------------|---------------------------------|----------------------------|----------------------------|---------------------------------|
|  | <b>2005</b>                |                            |                                 | <b>2006</b>                |                            |                                 |
|  | <b>Notional<br/>amount</b> | <b>Carrying<br/>amount</b> | <b>Estimated<br/>fair value</b> | <b>Notional<br/>amount</b> | <b>Carrying<br/>amount</b> | <b>Estimated<br/>fair value</b> |
| <b>(Yen in millions)</b>                     |                            |                            |                                 |                            |                            |                                 |
| Long-term debt including the current portion |                            | (845,862)                  | (856,321)                       |                            | (958,453)                  | (981,006)                       |
| Foreign exchange forward contracts           | 1,545,814                  | (55)                       | (55)                            | 1,489,213                  | 1,184                      | 1,184                           |
| Currency option contracts purchased          | 428,261                    | 1,646                      | 1,646                           | 457,380                    | 2,540                      | 2,540                           |
| Currency option contracts written            | 146,506                    | (3,390)                    | (3,390)                         | 163,746                    | (2,576)                    | (2,576)                         |
| Interest rate swap agreements                | 147,024                    | (2,968)                    | (2,968)                         | 172,430                    | (165)                      | (165)                           |
| Interest rate and currency swap agreements   | 29,843                     | (1,318)                    | (1,318)                         | 14,518                     | (488)                      | (488)                           |
| Interest rate future contracts               | 136,470                    | (92)                       | (92)                            |                            |                            |                                 |
| Bond future contracts                        | 7,225                      | 45                         | 45                              | 13,934                     | 111                        | 111                             |
| Stock price index option purchased           |                            |                            |                                 | 26,650                     | 40                         | 40                              |
| Embedded derivatives                         | 405,756                    | 11,894                     | 11,894                          | 411,252                    | 70,712                     | 70,712                          |

The following are explanatory notes regarding the estimation method of fair values in the above table.

**Long-term debt including the current portion**

The fair values of long-term debt, including the current portion, were estimated based on either the market value or the discounted amounts of future cash flows using Sony's current incremental debt rates for similar liabilities.

**Derivative financial instruments**

The fair values of foreign exchange forward contracts and foreign currency option contracts were estimated based on market quotations. The fair values of interest rate and currency swap agreements were estimated based on the discounted amounts of future net cash flows. The fair values of convertible rights, which were a majority of embedded derivatives, were estimated based on the market price of stock which will be acquired by the exercise of these rights.

**14. Pension 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. For employees voluntarily retiring, payments are determined based on current rates of pay and lengths of service. In calculating the payments for employees involuntarily retiring, including employees retiring due to meeting mandatory retirement age requirements, Sony may grant additional benefits.

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



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performance over that year. Under the point-based plan the amount of payment is determined based on 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. As a result of the plan amendment, the projected benefit obligation was decreased by 120,873 million yen.

Sony Corporation and most of its subsidiaries in Japan had contributory funded defined benefit pension plans pursuant to the Japanese Welfare Pension Insurance Law, which consisted of a substitutional portion of the governmental welfare pension program and an additional portion which was established at the discretion of each employer. In June, 2001, the Japanese Government issued the Defined Benefit Corporate Pension Plan Act, which permits each employer and employees' pension fund plan to separate the substitutional portion from its employees' pension fund and transfer the obligation and related assets to the government. In July, 2004, in accordance with the law, the Japanese Government approved applications submitted by Sony Corporation and most of its subsidiaries in Japan for an exemption from the obligation to pay benefits for future employee services related to the substitutional portion of the governmental welfare pension program. In January 2005, the government also approved applications for an exemption from the obligation to pay benefits for past employee services related to the substitutional portion. On September 20, 2005, the benefit obligation for past employee services related to the substitutional portion and the related government-specified portion of the plan assets were transferred to the government. As a result of the transfer to the government of the substitutional portion, as of March 31, 2006, Sony Corporation and most of its subsidiaries in Japan maintain contributory funded defined benefit plans, which were established by succeeding the additional portion established at the discretion of each employer, pursuant to the Corporate Defined Benefit Pension Plan Law.

Under the contributory pension 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 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.

EITF Issue No. 03-2, *Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities*, requires employers to account for the entire separation process of a substitutional portion from an entire plan upon completion of the transfer of the substitutional portion of the benefit obligation and related plan assets to the government as the culmination of a series of steps in a single settlement transaction. For the fiscal year ended March 31, 2006, in accordance with EITF Issue No. 03-2, Sony recognized a government subsidy of 133,322 million yen which is the net of the amount of the accumulated benefit obligation settled and the plan assets transferred to the government. Sony also recognized a settlement loss of 59,850 million yen, the amount of which is the net of 100,253 million yen of unrecognized losses related to the substitutional portion and 40,403 million yen for the derecognition of previously accrued salary progression. The net gain of 73,472 million yen is included in selling, general and administrative expenses.

Many foreign subsidiaries have defined benefit pension plans or severance indemnity plans, which substantially cover 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.

Sony uses a measurement date of March 31 for substantially all of its pension and severance plans.



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**SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The components of net pension and severance costs, which exclude employee termination benefits paid in restructuring activities, for the fiscal years ended March 31, 2004, 2005 and 2006 were as follows:

**Japanese plans:**

|   | <b>Fiscal Year Ended March 31</b> |               |               |
|---|-----------------------------------|---------------|---------------|
|   | <b>2004</b>                       | <b>2005</b>   | <b>2006</b>   |
|   | <b>(Yen in millions)</b>          |               |               |
| Service cost  | 54,501                            | 31,971        | 26,561        |
| Interest cost   | 19,489                            | 21,364        | 16,504        |
| Expected return on plan assets  | (22,812)                          | (16,120)      | (17,290)      |
| Amortization of net transition asset                                      | (375)                             | (375)         | (104)         |
| Recognized actuarial loss   | 31,019                            | 20,236        | 14,393        |
| Amortization of prior service cost  | (939)                             | (7,216)       | (10,229)      |
| Gains on curtailments and settlements                                     |                                   | (876)         |               |
| Settlement loss resulting from the transfer of the substitutional portion |                                   |               | 59,850        |
| <b>Net periodic benefit cost</b>  | <b>80,883</b>                     | <b>48,984</b> | <b>89,685</b> |

**Foreign plans:**

|  | <b>Fiscal Year Ended March 31</b> |               |               |
|--|-----------------------------------|---------------|---------------|
|  | <b>2004</b>                       | <b>2005</b>   | <b>2006</b>   |
|  | <b>(Yen in millions)</b>          |               |               |
| Service cost                           | 11,252                            | 6,419         | 6,852         |
| Interest cost                          | 8,566                             | 8,091         | 8,318         |
| Expected return on plan assets         | (6,812)                           | (6,712)       | (7,112)       |
| Amortization of net transition asset   | (27)                              | (18)          | 21            |
| Recognized actuarial loss              | 1,569                             | 1,637         | 1,674         |
| Amortization of prior service cost     | (117)                             | (114)         | (240)         |
| Losses on curtailments and settlements | 5,574                             | 1,713         | 915           |
| <b>Net periodic benefit cost</b>       | <b>20,005</b>                     | <b>11,016</b> | <b>10,428</b> |

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**SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The changes in benefit obligation and plan assets, funded status and composition of amounts recognized in the consolidated balance sheets were as follows:

|  | Japanese plans    |                | Foreign plans     |                |
|--|-------------------|----------------|-------------------|----------------|
|  | March 31          |                | March 31          |                |
|  | 2005              | 2006           | 2005              | 2006           |
|  | (Yen in millions) |                | (Yen in millions) |                |
| <b>Change in benefit obligation:</b>                       |                   |                |                   |                |
| Benefit obligation at beginning of the fiscal year         | 993,542           | 901,726        | 155,838           | 153,598        |
| Service cost   | 31,971            | 26,561         | 6,419             | 6,852          |
| Interest cost  | 21,364            | 16,504         | 8,091             | 8,318          |
| Plan participants' contributions                           | 2,111             |                | 873               | 609            |
| Amendments   | (120,873)         | (11,522)       | 286               | 238            |
| Actuarial (gain) loss                                      | 1,641             | (3,200)        | 12,210            | 20,183         |
| Foreign currency exchange rate changes                     |                   |                | 14,288            | 17,506         |
| Curtailments and settlements                               | (2,988)           |                | (628)             | (4,465)        |
| Benefits paid  | (25,042)          | (18,630)       | (11,639)          | (8,670)        |
| Divestiture  |                   |                | (32,140)          |                |
| Transfer of the substitutional portion to the government   |                   | (291,570)      |                   |                |
| <b>Benefit obligation at end of the fiscal year</b>        | <b>901,726</b>    | <b>619,869</b> | <b>153,598</b>    | <b>194,169</b> |
| <b>Change in plan assets:</b>                              |                   |                |                   |                |
| Fair value of plan assets at beginning of the fiscal year  | 513,095           | 534,451        | 85,662            | 92,025         |
| Actual return (loss) on plan assets                        | (354)             | 51,766         | 7,513             | 11,209         |
| Foreign currency exchange rate changes                     |                   |                | 3,517             | 5,059          |
| Employer contribution                                      | 34,581            | 32,867         | 18,406            | 5,493          |
| Plan participants' contributions                           | 2,111             |                | 873               | 609            |
| Curtailments and settlements                               |                   |                | (112)             | (4,006)        |
| Benefits paid  | (14,982)          | (11,911)       | (11,168)          | (5,995)        |
| Divestiture  |                   |                | (12,666)          |                |
| Transfer of the substitutional portion to the government   |                   | (117,845)      |                   |                |
| <b>Fair value of plan assets at end of the fiscal year</b> | <b>534,451</b>    | <b>489,328</b> | <b>92,025</b>     | <b>104,394</b> |

In connection with the establishment of the SONY BMG joint venture with Bertelsmann AG as discussed in Note 5, Sony transferred 32,140 million yen of its benefit obligation and 12,666 million yen of its plan assets which were included in Sony's foreign plans to the joint venture as of August 1, 2004.

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**SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

|                                   | Japanese plans    |                 | Foreign plans     |                 |
|-----------------------------------|-------------------|-----------------|-------------------|-----------------|
|                                   | March 31          |                 | March 31          |                 |
|                                   | 2005              | 2006            | 2005              | 2006            |
|                                   | (Yen in millions) |                 | (Yen in millions) |                 |
| Funded status                     | (367,275)         | (130,541)       | (61,573)          | (89,775)        |
| Unrecognized actuarial loss       | 322,237           | 169,915         | 37,383            | 41,587          |
| Unrecognized net transition asset | (104)             |                 | 7                 | 153             |
| Unrecognized prior service cost   | (134,440)         | (135,733)       | (501)             | (911)           |
| <b>Net amount recognized</b>      | <b>(179,582)</b>  | <b>(96,359)</b> | <b>(24,684)</b>   | <b>(48,946)</b> |

Amounts recognized in the consolidated balance sheet consist of:

|  |                  |                 |                 |                 |
|--|------------------|-----------------|-----------------|-----------------|
| Prepaid benefit cost   | 1,795            | 2,650           | 1,351           | 1,226           |
| Accrued pension and severance costs, including current portion | (309,957)        | (134,849)       | (42,934)        | (70,986)        |
| Intangibles  |                  |                 | 41              | 157             |
| Accumulated other comprehensive income                         | 128,580          | 35,840          | 16,858          | 20,657          |
| <b>Net amount recognized</b>                                   | <b>(179,582)</b> | <b>(96,359)</b> | <b>(24,684)</b> | <b>(48,946)</b> |

The accumulated benefit obligation for all defined benefit pension plan as follows:

|                                | Japanese plans    |         | Foreign plans     |         |
|--------------------------------|-------------------|---------|-------------------|---------|
|                                | March 31          |         | March 31          |         |
|                                | 2005              | 2006    | 2005              | 2006    |
|                                | (Yen in millions) |         | (Yen in millions) |         |
| Accumulated benefit obligation | 835,420           | 613,055 | 121,176           | 143,031 |

The projected benefit obligations, the accumulated benefit obligations and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were as follows:

|  | Japanese plans    |      | Foreign plans     |      |
|--|-------------------|------|-------------------|------|
|  | March 31          |      | March 31          |      |
|  | 2005              | 2006 | 2005              | 2006 |
|  | (Yen in millions) |      | (Yen in millions) |      |

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|                                 |         |         |         |         |
|---------------------------------|---------|---------|---------|---------|
| Projected benefit obligations   | 898,985 | 617,883 | 132,556 | 158,353 |
| Accumulated benefit obligations | 835,420 | 612,410 | 115,147 | 139,431 |
| Fair value of plan assets       | 533,926 | 488,588 | 86,070  | 99,798  |

Weighted-average assumptions used to determine benefit obligations as of March 31, 2004, 2005 and 2006 were as follows:

***Japanese plans:***

|                               | March 31 |      |      |
|-------------------------------|----------|------|------|
|                               | 2004     | 2005 | 2006 |
| Discount rate                 | 2.4%     | 2.3% | 2.2% |
| Rate of compensation increase | 3.0      | 3.3  | 3.4  |

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**SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Foreign plans:**

|                               | March 31 |      |      |
|-------------------------------|----------|------|------|
|                               | 2004     | 2005 | 2006 |
| Discount rate                 | 5.8%     | 5.5% | 5.1% |
| Rate of compensation increase | 4.0      | 3.3  | 3.7  |

Weighted-average assumptions used to determine net pension and severance costs for the fiscal years ended March 31, 2004, 2005 and 2006 were as follows:

**Japanese plans:**

|                                | Fiscal Year Ended<br>March 31 |      |      |
|--------------------------------|-------------------------------|------|------|
|                                | 2004                          | 2005 | 2006 |
| Discount rate                  | 1.9%                          | 2.4% | 2.3% |
| Expected return on plan assets | 4.0                           | 3.2  | 3.5  |
| Rate of compensation increase  | 3.0                           | 3.3  | 3.4  |

**Foreign plans:**

|                                | Fiscal Year Ended<br>March 31 |      |      |
|--------------------------------|-------------------------------|------|------|
|                                | 2004                          | 2005 | 2006 |
| Discount rate                  | 6.3%                          | 5.8% | 5.4% |
| Expected return on plan assets | 8.3                           | 7.8  | 7.8  |
| Rate of compensation increase  | 4.1                           | 4.0  | 3.7  |

As required under FAS No. 87, *Employers' Accounting for Pensions*, the assumptions are reviewed in accordance with changes in circumstances.

To determine the expected long-term rate of return on pension plan assets, Sony considers the current and expected asset allocations, as well as historical and expected long-term rate of returns on various categories of plan assets.

Following FAS No. 132<sup>®</sup>, *Employers' Disclosure about Pensions and Other Postretirement Benefits*, the weighted-average rate of compensation increase is calculated based on the pay-related plans only. The point-based plan discussed above is excluded from the calculation because payments made under the plan are not based on employee compensation.

Weighted-average pension plan asset allocations based on the fair value of such assets as of March 31, 2005 and 2006 were as follows:

**Japanese plans:**

**March 31,**

|                   | <b>2005</b> | <b>2006</b> |
|-------------------|-------------|-------------|
| Equity securities | 28.0%       | 38.1%       |
| Debt securities   | 34.7        | 47.7        |
| Cash              | 33.7        | 6.0         |
| Other             | 3.6         | 8.2         |
| <b>Total</b>      | <b>100%</b> | <b>100%</b> |

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**SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Foreign plans:**

|                   | March 31,   |             |
|-------------------|-------------|-------------|
|                   | 2005        | 2006        |
| Equity securities | 68.3%       | 69.1%       |
| Debt securities   | 23.4        | 20.8        |
| Real estate       | 4.0         | 6.8         |
| Other             | 4.3         | 3.3         |
| <b>Total</b>      | <b>100%</b> | <b>100%</b> |

For the pension plans of Sony Corporation and most of its subsidiaries in Japan, the target allocation as of March 31, 2006, is, as a result of our Asset Liability management, 34% of public equity, 56% of fixed income securities and 10% of other. When determining an appropriate asset allocation, diversification among assets is duly considered.

The actual asset allocation as of March 31, 2005 for Sony's principal pension plans did not meet the aforementioned target allocation as the Sony Employees' Pension Fund tentatively held cash to be paid to the Japanese government in relation to the transfer of the substitutional portion of the benefit obligation.

As a result from the transfer of the Japanese Government of the substitution portion of Sony's Employee Pension Fund in September 2005, pension plan assets of the Japanese plans as of March 31, 2006 decreased as compared to March 31, 2005.

Sony makes contributions to its contributory funded defined benefit pension plans as required by government regulation or 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 33 billion yen to the Japanese plans and approximately 6 billion yen to the foreign plans during the fiscal year ending March 31, 2007.

The future benefit payments are expected as follows:

| Fiscal Year Ending March 31, | Japanese plans    | Foreign plans     |
|------------------------------|-------------------|-------------------|
|                              | (Yen in millions) | (Yen in millions) |
| 2007                         | 17,336            | 7,262             |
| 2008                         | 19,081            | 6,764             |
| 2009                         | 21,002            | 7,532             |
| 2010                         | 25,400            | 8,326             |
| 2011                         | 29,102            | 8,994             |
| 2012 - 2016                  | 162,183           | 56,418            |

**15. Stockholders' equity****(1) Subsidiary tracking stock:**

On June 20, 2001, Sony Corporation issued shares of subsidiary tracking stock in Japan, the economic value of which is intended to be linked to the economic value of Sony Communication Network Corporation (SCN), a directly and indirectly wholly owned subsidiary of Sony Corporation which is engaged in Internet-related services. The

subsidiary tracking stock holders had no direct rights in the equity or assets of SCN or the assets of Sony Corporation.

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**SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

On October 26, 2005, the Board of Directors of Sony Corporation decided to terminate all shares of subsidiary tracking stock and convert such shares to shares of Sony common stock. All shares of subsidiary tracking stock were converted to shares of Sony common stock on December 1, 2005. As a result of the conversion, the number of shares of Sony common stock to be issued upon conversion was calculated by multiplying the number of shares of subsidiary tracking stock as of November 30, 2005, by 1.114, and the number of shares of Sony common stock to be issued upon conversion was 3,452,808.

**(2) Common stock:**

Changes in the number of shares of common stock issued and outstanding during the fiscal years ended March 31, 2004, 2005 and 2006 have resulted from the following:

|   | <b>Number of<br/>shares</b> |
|---|-----------------------------|
| Balance at March 31, 2003               | 922,385,176                 |
| Conversion of convertible bonds         | 2,944,800                   |
| Stock issued under exchange offering    | 1,088,304                   |
| <br>                                    |                             |
| Balance at March 31, 2004               | 926,418,280                 |
| Conversion of convertible bonds         | 70,765,533                  |
| Exercise of stock acquisition rights    | 27,400                      |
| <br>                                    |                             |
| Balance at March 31, 2005               | 997,211,213                 |
| Conversion of convertible bonds         | 484,200                     |
| Conversion of subsidiary tracking stock | 3,452,808                   |
| Exercise of stock acquisition rights    | 531,443                     |
| <br>                                    |                             |
| Balance at March 31, 2006               | 1,001,679,664               |

At March 31, 2006, 58,976,132 shares of common stock would be issued upon conversion or exercise of all convertible bonds, warrants and stock acquisition rights outstanding.

On May 1, 2003, Sony Corporation implemented a share exchange as a result of which CIS Corporation became a wholly-owned subsidiary. As a result of this share exchange, Sony Corporation issued 1,088,304 new shares, and additional paid-in capital increased 5,409 million yen.

On November 20, 1991, Sony Corporation made a free share distribution of 33,908,621 shares in ratios of one share for each ten shares held for which no accounting entry was required in Japan. Had the distribution been accounted for in the manner adopted by companies in the United States of America, 201,078 million yen would have been transferred from retained earnings to the appropriate capital accounts. This has been the only free distribution of common stock where no accounting entry was required in Japan.

Conversions of convertible bonds into common stock are accounted for in accordance with the provisions of the Japanese Commercial Code by crediting approximately one-half of the conversion proceeds to the common stock account and the remainder to the additional paid-in capital account.

The Ordinary General Meeting of Shareholders held on June 20, 2003 approved that Sony Corporation acquire up to a total not exceeding 90 million outstanding shares of its common stock at an amount in total not exceeding 400 billion yen and a total not exceeding 300 thousand outstanding shares of the subsidiary tracking stock at an amount in total not exceeding 1 billion yen. As a result, Sony Corporation had acquired 2 million outstanding shares

of its common stock at an amount in 8,200 million yen.

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**SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Ordinary General Meeting of Shareholders held on June 22, 2004 approved to amend the articles of incorporation that Sony Corporation may purchase its own shares by a resolution of the Board of Directors, in accordance with the amendments to the Japanese Commercial Code enacted on September 25, 2003. With the amendment of the articles of incorporation, 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. No common stock and subsidiary tracking stock had been acquired by the resolution of the Board of Directors during the fiscal year ended March 31, 2005 and 2006.

**(3) Retained earnings:**

The amount of statutory retained earnings of Sony Corporation available for dividends to shareholders as of March 31, 2006 was 565,936 million yen. The appropriation of retained earnings for the fiscal year ended March 31, 2006 including cash dividends for the six-month period ended March 31, 2006 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 17, 2006 and was then recorded in the statutory books of account, in accordance with the Japanese Commercial Code.

Retained earnings include Sony's equity in undistributed earnings of affiliated companies accounted for by the equity method in the amount of 2,724 million yen and 13,557 million yen at March 31, 2005 and 2006, respectively.

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**SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(4) Other comprehensive income:**

Other comprehensive income for the fiscal years ended March 31, 2004, 2005 and 2006 were as follows:

|   | Pre-tax<br>amount       | Tax<br>expense | Net-of-tax<br>amount |
|---|-------------------------|----------------|----------------------|
| (Yen in millions)   |                         |                |                      |
| For the fiscal year ended March 31, 2004:                   |                         |                |                      |
| Unrealized gains on securities                              |                         |                |                      |
| Unrealized holding gains (losses) arising during the period | 89,861                  | (31,890)       | 57,971               |
| Less: Reclassification adjustment included in net income    | (7,371)                 | 1,692          | (5,679)              |
| Unrealized losses on derivative instruments                 |                         |                |                      |
| Unrealized holding gains (losses) arising during the period | 11,586                  | (4,049)        | 7,537                |
| Less: Reclassification adjustment included in net income    | (5,961)                 | 2,617          | (3,344)              |
| Minimum pension liability adjustment                        | 162,408                 | (68,993)       | 93,415               |
| Foreign currency translation adjustments                    |                         |                |                      |
| Translation adjustments arising during the period           | (134,312)               | 5,199          | (129,113)            |
| Less: Reclassification adjustment included in net income    | 1,232                   |                | 1,232                |
| Other comprehensive income                                  | 117,443                 | (95,424)       | 22,019               |
| For the fiscal year ended March 31, 2005:                   |                         |                |                      |
| Unrealized gains on securities                              |                         |                |                      |
| Unrealized holding gains (losses) arising during the period | 7,184                   | (1,541)        | 5,643                |
| Less: Reclassification adjustment included in net income    | (18,140)                | 5,216          | (12,924)             |
| Unrealized losses on derivative instruments                 |                         |                |                      |
| Unrealized holding gains (losses) arising during the period | (2,015)                 | 1,806          | (209)                |
| Less: Reclassification adjustment included in net income    | (2,848)                 | 1,167          | (1,681)              |
| Minimum pension liability adjustment                        | (1,700)                 | 931            | (769)                |
| Foreign currency translation adjustments                    | Translation adjustments |                |                      |
| arising during the period                                   | 76,585                  | (2,361)        | 74,224               |
| Other comprehensive income                                  | 59,066                  | 5,218          | 64,284               |

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**SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

|   | Pre-tax<br>amount | Tax<br>expense | Net-of-tax<br>amount |
|---|-------------------|----------------|----------------------|
| <b>(Yen in millions)</b>                                    |                   |                |                      |
| For the fiscal year ended March 31, 2006:                   |                   |                |                      |
| Unrealized gains on securities                              |                   |                |                      |
| Unrealized holding gains (losses) arising during the period | 125,263           | (45,633)       | 79,630               |
| Less: Reclassification adjustment included in net income    | (64,953)          | 23,458         | (41,495)             |
| Unrealized losses on derivative instruments                 |                   |                |                      |
| Unrealized holding gains (losses) arising during the period | 14,888            | (7,023)        | 7,865                |
| Less: Reclassification adjustment included in net income    | (12,597)          | 5,173          | (7,424)              |
| Minimum pension liability adjustment                        | 88,941            | (38,735)       | 50,206               |
| Foreign currency translation adjustments                    |                   |                |                      |
| Translation adjustments arising during the period           | 143,888           | (3,415)        | 140,473              |
| Less: Reclassification adjustment included in net income    | (17)              |                | (17)                 |
| Other comprehensive income                                  | 295,413           | (66,175)       | 229,238              |

During the fiscal years ended March 31, 2004 and 2006, losses of 1,232 million yen and gains of 17 million yen of foreign currency translation adjustments were transferred respectively from other comprehensive income to net income as a result of the liquidation of certain foreign subsidiaries.

As discussed in Note 5, as of August 1, 2004, Sony and Bertelsmann AG combined their recorded music businesses in a joint venture. In connection with the establishment of the joint venture, the minimum pension liability attributable to employees who were transferred to SONY BMG totaling 6,053 million yen was transferred from other comprehensive income to the carrying value of Sony's investment in SONY BMG.

**16. Stock-based compensation plans**

Sony has four types of stock-based compensation plans as incentive plans for selected directors, corporate executive officers and employees.

**(1) Warrant plan:**

Upon issuance of unsecured bonds with detachable warrants which are described in Note 11, Sony Corporation has purchased all of the detachable warrants and distributed them to selected directors, corporate executive officers and employees of Sony. By exercising a warrant, directors, corporate executive officers and employees can purchase the common stock of Sony Corporation, the number of which is designated by each plan. The warrants generally vest ratably over a period of three years, and are exercisable up to six years from the date of grant.

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**SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Presented below is a summary of the activities regarding common stock warrants for the fiscal years shown:

**Fiscal Year Ended March 31**

|   | 2004             |                                       | 2005             |                                       | 2006             |                                       |   |
|---|------------------|---------------------------------------|------------------|---------------------------------------|------------------|---------------------------------------|---|
|   | Number of Shares | Weighted-average exercise price (Yen) | Number of Shares | Weighted-average exercise price (Yen) | Number of Shares | Weighted-average exercise price (Yen) | Weighted-average exercise price (Dollars) |
| Outstanding at beginning of the fiscal year | 3,190,292        | 8,132                                 | 3,190,292        | 8,132                                 | 2,626,300        | 8,533                                 | 72.93                                     |
| Expired                                     |                  |                                       | (563,992)        | 6,264                                 | (558,000)        | 7,167                                 | 61.26                                     |
| Outstanding at end of the fiscal year       | 3,190,292        | 8,132                                 | 2,626,300        | 8,533                                 | 2,068,300        | 8,901                                 | 76.08                                     |
| Exercisable at end of the fiscal year       | 2,808,292        | 8,416                                 | 2,626,300        | 8,533                                 | 2,068,300        | 8,901                                 | 76.08                                     |

There were no warrants granted or exercised during the fiscal years ended March 31, 2004, 2005 and 2006. At March 31, 2006, there were 1,145,900 and 922,400 shares outstanding under warrants with exercise prices of 6,039 yen and 12,457 yen and average remaining lives of 1.75 years and 0.58 years, respectively. The weighted average exercise price and remaining life of outstanding warrants was 8,901 yen and 1.23 years, respectively. All outstanding warrants were exercisable at March 31, 2006.

**(2) Convertible Bond plan:**

Sony has an equity-based compensation plan for selected executives of Sony's United States of America subsidiaries using U.S. dollar-denominated non-interest bearing convertible bonds which have characteristics similar to that of an option plan. Each convertible bond can be converted into 100 shares of the common stock of Sony Corporation at an exercise price based on the prevailing market rate shortly before the date of grant. The convertible bonds vest ratably over a three-year period and are exercisable up to ten years from the date of grant. As the convertible bonds were issued in exchange for a non-interest bearing employee loan and a right of offset exists between the convertible bonds and the employee loans, no accounting recognition was given to either the convertible bonds or the employee loans in Sony's consolidated balance sheet.

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**SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Presented below is a summary of the activities regarding convertible bond plan for the fiscal years shown:

**Fiscal Year Ended March 31**

|   | 2004             |                                 | 2005             |                                 | 2006             |                                 |                                 |
|---|------------------|---------------------------------|------------------|---------------------------------|------------------|---------------------------------|---------------------------------|
|   | Number of Shares | Weighted-average exercise price | Number of Shares | Weighted-average exercise price | Number of Shares | Weighted-average exercise price | Weighted-average exercise price |
|   |                  | (Yen)                           |                  | (Yen)                           |                  | (Yen)                           | (Dollars)                       |
| Outstanding at beginning of the fiscal year | 3,802,700        | 6,870                           | 3,341,700        | 6,852                           | 3,136,400        | 6,861                           | 58.64                           |
| Exercised                                   |                  |                                 |                  |                                 | (484,200)        | 5,952                           | 50.87                           |
| Forfeited                                   | (461,000)        | 6,943                           | (205,300)        | 6,668                           | (158,700)        | 7,989                           | 68.28                           |
| Outstanding at end of the fiscal year       | 3,341,700        | 6,852                           | 3,136,400        | 6,861                           | 2,493,500        | 8,133                           | 69.51                           |
| Exercisable at end of the fiscal year       | 2,614,700        | 7,042                           | 2,923,300        | 6,952                           | 2,493,500        | 8,133                           | 69.51                           |

There were no shares granted under the convertible bond plan during the fiscal years ended March 31, 2004, 2005 and 2006. All shares under the convertible bond plan were exercisable as of March 31, 2006.

A summary of convertible bond options outstanding and exercisable at March 31, 2006 is as follows:

**Outstanding and Exercisable**

| Exercise price range | Number of Shares | Weighted-average exercise price | Weighted-average exercise price | Weighted-average remaining life |
|----------------------|------------------|---------------------------------|---------------------------------|---------------------------------|
| (Yen)                |                  | (Yen)                           | (Dollars)                       | (Years)                         |
| 5,952~10,000         | 2,117,200        | 7,229                           | 61.79                           | 3.96                            |
| 10,001~13,220        | 376,300          | 13,220                          | 112.99                          | 4.08                            |
| 5,952~13,220         | 2,493,500        | 8,133                           | 69.51                           | 3.98                            |

**(3) Stock Acquisition Rights:**

During the fiscal year ended March 31, 2003, Sony adopted an equity-based compensation plan that issues common stock acquisition rights for the purpose of granting stock options to selected directors, corporate executive

officers and employees of Sony, pursuant to the Commercial Code of Japan. The stock acquisition rights generally vest ratably over a period of three years and are exercisable up to ten years from the date of grant.

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**SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Presented below is a summary of the activities regarding stock acquisition rights plan for the fiscal years shown:

**Fiscal Year Ended March 31**

|   | 2004             |                                       | 2005             |                                       | 2006             |                                       |       |
|---|------------------|---------------------------------------|------------------|---------------------------------------|------------------|---------------------------------------|-------|
|   | Number of Shares | Weighted-average exercise price (Yen) | Number of Shares | Weighted-average exercise price (Yen) | Number of Shares | Weighted-average exercise price (Yen) |       |
| Outstanding at beginning of the fiscal year | 2,647,900        | 4,845                                 | 5,173,600        | 4,424                                 | 7,350,500        | 4,288                                 | 36.65 |
| Granted                                     | 2,621,400        | 4,220                                 | 2,433,600        | 3,996                                 | 2,491,600        | 3,936                                 | 33.64 |
| Exercised                                   |                  |                                       | (27,400)         | 3,896                                 | (364,800)        | 4,216                                 | 36.06 |
| Forfeited                                   | (95,700)         | 3,896                                 | (229,300)        | 4,419                                 | (376,600)        | 4,441                                 | 37.96 |
| Outstanding at end of the fiscal year       | 5,173,600        | 4,424                                 | 7,350,500        | 4,288                                 | 9,100,700        | 4,351                                 | 37.19 |
| Exercisable at end of the fiscal year       | 430,900          | 5,291                                 | 1,674,000        | 4,652                                 | 3,136,200        | 4,629                                 | 39.56 |

A summary of stock acquisition rights outstanding and exercisable at March 31, 2006 is as follows:

| Exercise price range (Yen) | Outstanding      |                                       |   | Exercisable                             |                  |                                       |   |
|----------------------------|------------------|---------------------------------------|---|---|------------------|---------------------------------------|---|
|                            | Number of Shares | Weighted-average exercise price (Yen) | Weighted-average exercise price (Dollars) | Weighted-average remaining life (Years) | Number of Shares | Weighted-average exercise price (Yen) | Weighted-average exercise price (Dollars) |
| 3,782~5,396                | 9,100,700        | 4,351                                 | 37.19                                     | 8.38                                    | 3,136,200        | 4,629                                 | 39.56                                     |

As the exercise prices for the warrant, convertible bond and stock acquisition rights plans were determined based on the prevailing market price shortly before the date of grant, the compensation expense for these plans was not significant for the fiscal years ended March 31, 2004, 2005 and 2006.

As discussed in Notes 2 and 15, all shares of subsidiary tracking stock were converted to shares of Sony common stock on December 1, 2005. As a result of the conversion, all subsidiary tracking stock warrants and acquisition rights were converted to Sony common stock warrants and acquisition rights. In addition to the above tables, 166,643 shares

were issued by the exercise of those warrants and acquisition rights. At March 31, 2006, there were no common stock warrants and acquisition rights outstanding which were granted by the conversion.

As a result of the establishment of the joint venture between Sony's recorded music business with the recorded music business of Bertelsmann AG (Note 5), employees of Sony's recorded music business who were granted options under the convertible bond and stock acquisition rights plans prior to the establishment of the joint venture are no longer considered employees of Sony under FAS No. 123 as these individuals are now employees of SONY BMG which is accounted for under the equity method. As a result, a compensation charge of 340 million yen was recorded in the fiscal year ended March 31, 2005 based on the fair value method of accounting for stock-based compensation using the Black-Scholes option-pricing model.

The weighted-average fair value per share at the date of grant of stock acquisition rights granted during the fiscal years ended March 31, 2004, 2005 and 2006 were 1,413 yen, 1,085 yen and 1,585 yen, respectively. The fair value of stock acquisition rights granted on the date of grant, which is amortized to expense over the

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**SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

vesting period in determining the pro forma impact, is estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions:

| Weighted-average assumptions | Fiscal Year Ended March 31 |            |            |
|------------------------------|----------------------------|------------|------------|
|                              | 2004                       | 2005       | 2006       |
| Risk-free interest rate      | 2.18%                      | 2.04%      | 2.90%      |
| Expected lives               | 3.67 years                 | 3.54 years | 6.14 years |
| Expected volatility          | 42.83%                     | 35.56%     | 39.50%     |
| Expected dividend            | 0.57%                      | 0.62%      | 0.61%      |

**(4) SAR plan:**

Sony granted stock appreciation rights ( SARs ) in Japan, Europe and the United States of America for selected employees. Under the terms of these plans, employees on exercise receive cash equal to the amount that the market price of Sony Corporation's common stock exceeds the strike price of the SARs. The SARs generally vest ratably over a period of three years, and are generally exercisable up to six to ten years from the date of grant. Sony uses various strategies to minimize the compensation expense associated with the SAR plans in the United States of America and Europe.

The status of the SAR plans is summarized as follows:

|   | Fiscal Year Ended March 31 |                                       |                |                                       |                |                                       |   |
|---|----------------------------|---------------------------------------|----------------|---------------------------------------|----------------|---------------------------------------|---|
|   | 2004                       |                                       | 2005           |                                       | 2006           |                                       |   |
|   | Number of SARs             | Weighted-average exercise price (Yen) | Number of SARs | Weighted-average exercise price (Yen) | Number of SARs | Weighted-average exercise price (Yen) | Weighted-average exercise price (Dollars) |
| Outstanding at beginning of the fiscal year | 2,343,028                  | 6,341                                 | 1,526,568      | 6,424                                 | 865,084        | 7,436                                 | 63.56                                     |
| Exercised                                   |                            |                                       | (241,134)      | 3,955                                 | (50,000)       | 5,020                                 | 42.91                                     |
| Expired or forfeited                        | (816,460)                  | 5,494                                 | (420,350)      | 5,855                                 | (628,584)      | 7,338                                 | 62.72                                     |
| Outstanding at end of the fiscal year       | 1,526,568                  | 6,424                                 | 865,084        | 7,436                                 | 186,500        | 9,211                                 | 78.73                                     |
| Exercisable at end of the fiscal year       | 1,462,391                  | 6,421                                 | 856,156        | 7,455                                 | 186,500        | 9,211                                 | 78.73                                     |

There were no SARs granted during the fiscal years ended March 31, 2004, 2005 and 2006. All SARs were exercisable as of March 31, 2006.

A summary of SARs outstanding and exercisable at March 31, 2006 is as follows:

**Outstanding and Exercisable**

| <b>Exercise price<br/>range</b> | <b>Number of<br/>SARs</b> | <b>Weighted-<br/>average<br/>exercise price</b> | <b>Weighted-<br/>average<br/>exercise price</b> | <b>Weighted-<br/>average<br/>remaining life</b> |
|---------------------------------|---------------------------|---|---|---|
| <b>(Yen)</b>                    |                           | <b>(Yen)</b>                                    | <b>(Dollars)</b>                                | <b>(Years)</b>                                  |
| 4,345~7,000                     | 39,650                    | 5,819   | 49.74   | 5.91  |
| 7,001~10,000                    | 100,525                   | 9,143   | 78.15   | 1.73  |
| 10,001~14,440                   | 46,325                    | 12,260  | 104.79  | 4.19  |
| 4,345~14,440                    | 186,500                   | 9,211   | 78.73   | 3.23  |

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In accordance with APB No. 25 and its related interpretations, the SARs compensation expense is measured as the excess of the quoted market price of Sony Corporation's common stock over the SARs strike price, which is consistent with the accounting treatment prescribed for SAR plans in FAS No. 123. For the fiscal year ended March 31, 2004, Sony recognized 105 million yen of SARs compensation expense. For the fiscal year ended March 31, 2005, Sony recognized a reduction in SARs compensation expense of 74 million yen. For the fiscal year ended March 31, 2006, Sony recognized 70 million yen of SARs compensation expense.

**17. 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 within its Electronics segment, Pictures segment and All Other. For the fiscal years ended March 31, 2004, 2005 and 2006, Sony recorded total restructuring charges of 168,091 million yen, 89,963 million yen and 138,692 million yen, respectively. Significant restructuring charges and asset impairments include the following:

**Electronics Segment**

In an effort to improve the performance of the Electronics segment, Sony has undergone a number of restructuring efforts to reduce its operating costs. For the fiscal years ended March 31, 2004, 2005 and 2006, Sony recorded total restructuring charges of 143,589 million yen, 83,227 million yen and 125,802 million yen, respectively, within the Electronics segment. In addition to the above charges, the Electronics segment also reflects restructuring costs of 2,122 million yen for the fiscal year ended March 31, 2004, that relate to the non-Japan based disc manufacturing and physical distribution businesses that were part of the restructuring charges of the Music business which is discussed below. These restructuring charges were formerly included within the Music segment but were reclassified to the Electronics segment. See Note 24 for more information on this reclassification. Significant restructuring activities are as follows:

*Downsizing of CRT TV display operations -*

Due to the worldwide market shrinkage and demand shift from CRT displays to plasma and LCD panel displays, Sony has begun to implement a worldwide plan to rationalize production facilities of CRT TV display and has been downsizing its business over several years.

As part of its worldwide plan, Sony made a decision in the fiscal year ended March 31, 2004 to discontinue certain CRT TV display manufacturing operations in Japan. Restructuring charges totaling 8,478 million yen consisted of personnel related costs of 3,139 million yen and non-cash equipment impairment, disposal and other costs of 5,339 million yen. Of the total restructuring charges, 158 million yen was recorded in cost of sales, 3,139 million yen was included in selling, general and administrative expenses, and 5,181 million yen was included in loss on sale, disposal or impairment of assets, net in the consolidated statements of income. This phase of the restructuring program was completed in the fiscal year ended March 31, 2004 and no liability existed as of March 31, 2006.

In the fiscal year ended March 31, 2005, as part of this restructuring program, Sony recorded a non-cash impairment charge of 7,479 million yen for CRT TV display manufacturing facilities located in Europe. The impairment charge was calculated as the difference between the carrying value of the asset group and the present value of estimated future cash flows. The charge was recorded in loss on sale, disposal or impairment of assets, net in the consolidated statements of income. This phase of the restructuring program was completed in the fiscal year ended March 31, 2005 and no liability existed as of March 31, 2006.

In the fiscal year ended March 31, 2006, Sony made a decision to discontinue certain CRT TV display manufacturing operations in the U.S. Restructuring charges totaling 32,488 million yen consisted of personnel

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related costs of 1,962 million yen and non-cash equipment impairment, disposal and other costs of 30,526 million yen. Of the total restructuring charges, 6,982 million yen was recorded in cost of sales, and 25,506 million yen was included in loss on sale, disposal or impairment of assets, net in the consolidated statements of income. The impairment charge was calculated as the difference between the carrying value of the asset group and the present value of estimated future cash flows. This phase of the restructuring program was completed in the fiscal year ended March 31, 2006. The remaining liability balance as of March 31, 2006 was 3,852 million yen with a large portion of the liabilities to be paid during the fiscal year ending March 31, 2007.

In the fiscal year ended March 31, 2006, as part of this restructuring program, Sony recorded a non-cash impairment charge of 2,856 million yen for CRT TV display manufacturing facilities located in Southeast Asia. The impairment charge was calculated as the difference between the carrying value of the asset group and the present value of estimated future cash flows. The charge was recorded in loss on sale, disposal or impairment of assets, net in the consolidated statements of income. This phase of the restructuring program was completed in the fiscal year ended March 31, 2006 and no liability existed as of March 31, 2006.

The worldwide plan to rationalize production facilities of CRT TV display was substantially completed during the fiscal year ended March 31, 2006.

*Closing of a semiconductor plant in the U.S. -*

Due to a significant decline in the business conditions of the U.S. semiconductor industry, Sony made a decision in the fourth quarter of the fiscal year ended March 31, 2003, to close a semiconductor plant in the U.S. This restructuring activity was completed in the fiscal year ended March 31, 2005 and total restructuring charges of 4,936 million yen have been incurred through March 31, 2005. The remaining liability balance as of March 31, 2006 was 152 million yen and will be substantially paid through the fiscal year ending March 31, 2007.

During the fiscal year ended March 31, 2004, Sony recorded net restructuring charges totaling 874 million yen which consisted of the accelerated depreciation and write-down of equipment of 1,982 million yen, gain on disposal of assets of 1,962 million yen, and 854 million yen of other costs including lease contract termination costs. Among these charges 1,760 million yen was recorded in cost of sales, while asset write-down and disposal costs of 1,076 million yen and the gain on asset disposals of 1,962 million yen were included in loss on sale, disposal or impairment of assets, net in the consolidated statements of income.

During the fiscal year ended March 31, 2005, Sony sold the facilities and recorded a gain on disposal of 1,794 million yen. The gain was included in loss on sale, disposal or impairment of assets, net in the consolidated statements of income.

*Retirement Programs -*

In addition to the restructuring efforts disclosed above, Sony has undergone several headcount reduction programs to further reduce operating costs in its Electronics segment. As a result of these programs, Sony recorded restructuring charges totaling 115,149 million yen, 50,960 million yen and 45,116 million yen for the fiscal years ended March 31, 2004, 2005 and 2006, respectively, and these charges were included 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. The remaining liability balance as of March 31, 2006 was 19,424 million yen and will be paid through the fiscal year ending March 31, 2007. Sony will continue to implement programs to reduce headcount by streamlining business operations, including closure and consolidation of manufacturing sites, as well as headquarters and administrative functions.

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***Pictures Segment***

In an effort to improve the performance of the Pictures segment, Sony has undergone a number of restructuring efforts to reduce its operating costs. For the fiscal years ended March 31, 2004 and 2005, Sony recorded total restructuring charges of 4,611 million yen and 385 million yen, respectively, within the Pictures segment. There were no restructuring charges incurred for the fiscal year ended March 31, 2006. Significant restructuring activities are the following:

***Consolidation of Television Operations -***

Due to changes within the television production and distribution business, the competition between network owned production companies and other production and distribution companies to license product to the major televisions networks has become more intense. This competitive environment has resulted in fewer opportunities to produce shows for the networks and a shorter lifespan for ordered shows that do not immediately achieve favorable ratings. This trend has resulted in an increase in the number of new programs being distributed yet canceled in their first or second season, which are generally less profitable, and a decrease in the number of network programs that are able to achieve syndication, which are generally more profitable. As a result, in the fiscal year ended March 31, 2002, Sony decided to consolidate its television operations and downsize the network television production business in the Pictures segment. This restructuring program was completed in the fiscal year ending March 31, 2005, and the total cost of the program from the inception was 8,932 million yen. No liability existed as of March 31, 2006.

***Fixed Cost Reduction Program -***

During the fiscal year ended March 31, 2004, the Pictures segment implemented a fixed cost reduction program to further reduce its operating costs. This restructuring program primarily related to the reduction of staffing levels and the disposal of certain long-lived assets. This restructuring program was completed during the fiscal year ended March 31, 2005 and the total cost of this restructuring program was 4,996 million yen.

The Pictures segment recorded 4,611 million yen of these costs during the fiscal year ended March 31, 2004. These restructuring charges consisted of personnel related costs of 993 million yen, non-cash asset impairment and disposal costs of 1,746 million yen, and other costs of 1,872 million yen including those relating to the buy-out of term deal commitments. Of the restructuring costs incurred, 1,525 million yen was included in cost of sales, 1,340 million yen was included in selling, general and administrative expenses, and 1,746 million yen was included in loss on sale, disposal or impairment of assets, net in the consolidated statements of income.

During the fiscal year ended March 31, 2005, the Pictures segment completed the fixed cost reduction program and recorded 385 million yen of additional restructuring costs. These restructuring charges consisted primarily of personnel related costs of 292 million yen which were included in selling, general and administrative expenses in the consolidated statements of income. No liability existed as of March 31, 2006.

***All Other (Music Business)***

Due to the continued contraction of the worldwide music market due to slow worldwide economic growth, the saturation of the CD market, the effects of piracy and other illegal duplication, parallel imports, pricing pressures and the diversification of customer preferences, Sony has been actively repositioning the Music business for the future by looking to create a more effective and profitable business model. As a result, the Music business has undergone a worldwide restructuring program since the fiscal year ended March 31, 2001 to reduce staffing and other costs through the consolidation and rationalization of facilities worldwide excluding Japan. As part of this restructuring program, Sony combined its recorded music business with the recorded music business of Bertelsmann AG to form SONY BMG, a joint venture that is accounted for under

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the equity method. See Note 5 for more information on this transaction. For the fiscal years ended March 31, 2004, 2005 and 2006, Sony recorded total restructuring charges of 10,691 million yen, 3,025 million yen and 129 million yen, respectively, related to the restructuring of the Music business excluding Japan. Of these restructuring charges, 2,122 million yen for the fiscal year ended March 31, 2004, was recorded in the non-Japan based disc manufacturing and physical distribution businesses, formerly included within the Music segment but reclassified to the Electronics segment. See Note 24 for more information on this reclassification. This worldwide restructuring of the Music business was completed during the fiscal year ended March 31, 2006, and the total cost of the program was 52,702 million yen, which was incurred from the inception of the program through the fiscal year ended March 31, 2006. The restructuring costs within the Music business do not include the restructuring costs of SONY BMG since the establishment of the joint venture. At March 31, 2006, the liability balance was 1,193 million yen which is expected to be settled during the fiscal year ending March 31, 2007.

In addition to the above, Sony also recorded restructuring charges of 1,291 million yen, 803 million yen and 346 million yen for the fiscal years ended March 31, 2004, 2005 and 2006, respectively, in Japan, which were primarily personnel related costs included in selling, general and administrative expenses in the consolidated statements of income.

Significant restructuring activities included the following:

During the fiscal year ended March 31, 2004, Sony broadened the scope of its worldwide restructuring of the Music business, which resulted in restructuring charges totaling 10,691 million yen. Restructuring activities included the continuation of the shutdown of the CD manufacturing facility in the U.S. as well as the restructuring of music label operations and the further rationalization of overhead functions through staff reductions. The restructuring charges consisted of personnel related costs of 5,137 million yen, lease abandonment costs of 1,323 million yen and other related costs of 4,231 million yen including non-cash asset impairment and disposal costs. Most of these charges are included in selling, general and administrative expenses in the consolidated statements of income. Employees were eliminated across various employee levels, business functions, operating units, and geographic regions during this phase of the worldwide restructuring program.

During the fiscal year ended March 31, 2005, in continuation of the worldwide restructuring program and in connection with the establishment of the joint venture with Bertelsmann AG (Note 5), Sony recorded restructuring charges totaling 3,025 million yen within the Music business. Restructuring activities included the shutdown of certain distribution operations that were no longer required as a result of the recorded music joint venture with Bertelsmann AG as well as the further rationalization of overhead functions through staff reductions. The restructuring charges consisted of personnel related costs of 883 million yen and other related costs of 2,142 million yen. These charges are included in selling, general and administrative expenses in the consolidated statements of income. Employees were eliminated across various employee levels, business functions, operating units, and geographic regions during this phase of the worldwide restructuring program.

During the fiscal year ended March 31, 2006, the worldwide restructuring program was completed and Sony recorded additional restructuring charges totaling 129 million yen, primarily consisting of other associated restructuring costs. Restructuring activities included the further shutdown of certain distribution operations that were no longer required as a result of the recorded music joint venture with Bertelsmann AG. These charges are included in selling, general and administrative expenses in the consolidated statements of income.

***All Other (U.S. Entertainment Complex)***

As part of its efforts to restructure and eliminate certain non-core businesses, Sony reached an agreement to sell a U.S. entertainment complex in March 2006. As a result, Sony recorded an impairment charge of



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8,522 million yen. The impairment charge was based on the negotiated sales price of the complex, and is recorded in loss on sale, disposal or impairment of assets, net in the consolidated statements of income.

The changes in the accrued restructuring charges for the fiscal years ended March 31, 2004, 2005 and 2006 are as follows:

|                           | <b>Employee<br/>termination<br/>benefits</b> | <b>Non-cash<br/>write-downs<br/>and disposals</b> | <b>Other<br/>associated<br/>costs</b> | <b>Total</b> |
|---------------------------|--|---|---------------------------------------|--------------|
| (Yen in millions)         |  |   |                                       |              |
| Balance at March 31, 2003 | 14,784                                       |   | 5,787                                 | 20,571       |
| Restructuring costs       | 133,367                                      | 19,170  | 15,554                                | 168,091      |
| Non-cash charges          |  | (19,170)  |                                       | (19,170)     |
| Cash payments             | (124,674)                                    |   | (13,686)                              | (138,360)    |
| Adjustments               | 1,173  |   | 333                                   | 1,506        |
| Balance at March 31, 2004 | 24,650                                       |   | 7,988                                 | 32,638       |
| Restructuring costs       | 53,563                                       | 25,564  | 10,836                                | 89,963       |
| Non-cash charges          |  | (25,564)  |                                       | (25,564)     |
| Cash payments             | (61,523)                                     |   | (10,427)                              | (71,950)     |
| Adjustments*              | (1,705)                                      |   | (3,096)                               | (4,801)      |
| Balance at March 31, 2005 | 14,985                                       |   | 5,301                                 | 20,286       |
| Restructuring costs       | 48,255                                       | 76,999  | 13,438                                | 138,692      |
| Non-cash charges          |  | (76,999)  |                                       | (76,999)     |
| Cash payments             | (42,152)                                     |   | (7,929)                               | (50,081)     |
| Adjustments               | (1,227)                                      |   | 3                                     | (1,224)      |
| Balance at March 31, 2006 | 19,861                                       |   | 10,813                                | 30,674       |

\* Adjustments primarily consist of the transfer of the accrued restructuring charges to SONY BMG, a joint venture with Bertelsmann AG (Note 5).

**18. Research and development costs, advertising costs and shipping and handling costs**

**(1) Research and development costs:**

Research and development costs charged to cost of sales for the fiscal years ended March 31, 2004, 2005 and 2006 were 514,483 million yen, 502,008 million yen and 531,795 million yen, respectively.

**(2) Advertising costs:**

Advertising costs included in selling, general and administrative expenses for the fiscal years ended March 31, 2004, 2005 and 2006 were 421,433 million yen, 359,661 million yen and 419,508 million yen, respectively.

**(3) 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, 2004, 2005 and 2006 were 106,590 million yen, 107,983 million yen and 114,500 million yen, respectively, which included the internal transportation costs of finished goods.

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**19. Gain on change in interest in subsidiaries and equity investees**

In January 2004, FeliCa Networks, Inc., whose field of business is Mobile FeliCa IC chip development and production/sales licensing and operation of the Mobile FeliCa service platform, issued 115,000 shares at 100,000 yen per share with a total value of 11,500 million yen in connection with its private offering. As a result of this issuance, Sony recorded a gain of 3,364 million yen and provided deferred taxes on this gain. This issuance reduced Sony's ownership interest from 100% to 60%.

In addition to the above transaction, for the fiscal year ended March 31, 2004, Sony recognized 1,506 million yen of other gains on change in interest in subsidiaries and equity investees resulting in total gains of 4,870 million yen.

In August 2, 2004, Monex Inc., which provided on-line security trading services in Japan, and Nikko Beans, Inc. established Monex Beans Holdings, Inc. by way of share transfer of the then existing shares of Monex Inc. and Nikko Beans, Inc.. At this establishment, 1 share of Monex Beans Holdings, Inc. was allotted to each share of Monex Inc. and 3.4 shares of Monex Beans Holdings, Inc. were allotted to each share of Nikko Beans, Inc.. As a result of this share transfer, Monex Beans Holdings, Inc. issued 2,344,687 shares and Sony recorded a gain of 8,951 million yen and provided deferred taxes on this gain. This issuance reduced Sony's ownership interest from 29.9% to 20.1%.

In September 2004, So-net M3 Inc., which provides medical services via the Internet in Japan, issued 2,800 shares at 850,000 yen per share with a total value of 2,380 million yen in connection with its initial public offering. SCN, a parent company of So-net M3 Inc., sold 3,260 shares of So-net M3 Inc., at 790,500 yen per share with a total value of 2,577 million yen. In October 2004, SCN sold 740 shares of So-net M3 Inc., at 790,500 yen per share with a total value of 585 million yen. As a result of these transactions, Sony recorded a 1,823 million yen gain on issuance of stock by So-net M3 Inc. and provided deferred taxes on this gain. In addition, Sony recorded a 2,876 million yen gain on the sale of its shares of So-net M3 Inc. These transactions reduced Sony's ownership interest from 90.0% to 74.8%.

In January 2005, DeNA Co., Ltd., whose field of business is the operation of on-line auction websites in Japan, issued 14,000 shares at 204,600 yen per share with a total value of 2,864 million yen in connection with its initial public offering. In March 2005, SCN, which had owned a 27.7% interest in DeNA Co., Ltd., sold 2,000 shares of DeNA Co., Ltd. at 204,600 yen per share with a total value of 409 million yen. As a result of these transactions, Sony recorded a 686 million yen gain on issuance of stock by DeNA Co., Ltd. and provided deferred taxes on this gain. In addition, Sony recorded a 76 million yen gain on the sale of its shares of DeNA Co., Ltd.. These transactions reduced Sony's ownership interest from 27.7% to 24.8%.

In addition to the above transactions, for the fiscal year ended March 31, 2005, Sony recognized 1,911 million yen of other gains on change in interest in subsidiaries and equity investees resulting in total gains of 16,322 million yen.

In June 2005, SCN sold 17,935 shares of So-net M3 Inc., at 694,600 yen per share with a total value of 12,458 million yen. As a result of this sale, Sony recorded a 11,979 million yen gain and provided deferred taxes on this gain. This sale reduced Sony's ownership interest from 74.8% to 60.8%.

In June 2005, SCN sold 7,000 shares of DeNA Co., Ltd. at 863,040 yen per share with a total value of 6,041 million yen. In March 2006, DeNA Co., Ltd. issued 14,300 shares at 314,138 yen per share with a total value of 4,492 million yen in connection with its private offering. As a result of these transactions, Sony recorded an 821 million yen gain on issuance of stock by DeNA Co., Ltd. and provided deferred taxes on this gain. In addition, Sony recorded a 5,817 million yen gain on the sale of its shares of DeNA Co., Ltd.. These transactions reduced Sony's ownership interest from 24.8% to 19.1%.

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In September 2005, Sony Corporation sold 230,000 shares of Monex Beans Holdings, Inc. at 119,040 yen per share with a total value of 27,379 million yen. As a result of this sale, Sony recorded a 20,590 million yen gain and provided deferred taxes on this gain. This sale reduced Sony's ownership interest from 20.1% to 10.3%. See Note 5 for more information on this transaction.

In December 2005, SCN issued 20,000 shares at 320,960 yen per share with a total value of 6,419 million yen in connection with its initial public offering. Sony Corporation and Sony Finance International Inc., which had owned 82.6% and 17.4% interests in SCN, respectively, sold 66,000 shares and 4,000 shares of SCN, respectively, at 320,960 yen per share with a total value of 22,467 million yen. In January 2006, Sony Corporation sold 12,000 shares of SCN at 320,960 yen per share with a total value of 3,852 million yen. As a result of these transactions, Sony recorded a 4,226 million yen gain on issuance of stock by SCN and provided deferred taxes on this gain. In addition, Sony recorded a 17,321 million yen gain on the sale of its shares of SCN. These transactions reduced Sony's ownership interest from 100% to 60.1%.

In addition to the above transactions, for the fiscal year ended March 31, 2006, Sony recognized 80 million yen of other gains on change in interest in subsidiaries and equity investees resulting in total gains of 60,834 million yen.

These transactions were not part of a broader corporate reorganization and the reacquisition of such shares was not contemplated at the time of issuance.

**20. Income taxes**

Income before income taxes and income tax expense comprise the following:

|  | <b>Fiscal Year Ended March 31</b> |             |             |
|--|-----------------------------------|-------------|-------------|
|  | <b>2004</b>                       | <b>2005</b> | <b>2006</b> |
|  | <b>(Yen in millions)</b>          |             |             |
| <b>Income (loss) before income taxes:</b>  |                                   |             |             |
| Sony Corporation and subsidiaries in Japan | (84,571)                          | 5,005       | 243,927     |
| Foreign subsidiaries                       | 228,638                           | 152,202     | 42,402      |
|  | 144,067                           | 157,207     | 286,329     |
| <b>Income taxes Current:</b>               |                                   |             |             |
| Sony Corporation and subsidiaries in Japan | 22,286                            | 23,497      | 55,154      |
| Foreign subsidiaries                       | 64,933                            | 62,013      | 41,246      |
|  | 87,219                            | 85,510      | 96,400      |
| <b>Income taxes Deferred:</b>              |                                   |             |             |
| Sony Corporation and subsidiaries in Japan | (32,845)                          | 4,976       | 105,938     |
| Foreign subsidiaries                       | (1,600)                           | (74,442)    | (25,823)    |
|  | (34,445)                          | (69,466)    | 80,115      |

Sony is subjected to a number of different income taxes. Due to changes in Japanese income tax regulations, a consolidated tax filing system was introduced on April 1, 2002. Sony applied to file its return under the consolidated tax filing system beginning with the fiscal year ended March 31, 2004. Under the Japanese consolidated tax filing

system, a 2% surtax was imposed only for the fiscal year ended March 31, 2004. As a result, the statutory tax rate was 43.9% for the fiscal year ended March 31, 2004.

During the fiscal year ended March 31, 2005, a corporation size-based enterprise tax was introduced in Japan and the portion of enterprise tax subject to income was reduced. As a result, the statutory tax rate for

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the fiscal year ended March 31, 2005 was approximately 41% effective April 1, 2004. The effect of the change in the tax rate on the balance of deferred tax assets and liabilities was insignificant.

Reconciliation of the differences between the statutory tax rate and the effective income tax rate is as follows:

|   | <b>Fiscal Year Ended<br/>March 31</b> |             |             |
|---|---------------------------------------|-------------|-------------|
|   | <b>2004</b>                           | <b>2005</b> | <b>2006</b> |
| Statutory tax rate  | 43.9%                                 | 41.0%       | 41.0%       |
| Increase (reduction) in taxes resulting from:   |                                       |             |             |
| Income tax credits  | (2.4)                                 | (0.1)       | (1.3)       |
| Change in valuation allowances  | 6.5                                   | (22.7)      | 21.6        |
| Increase (decrease) in deferred tax liabilities on undistributed earnings of foreign subsidiaries | (9.2)                                 | (4.0)       | 4.5         |
| Lower tax rate applied to life and non-life insurance business in Japan                           | (2.6)                                 | (1.9)       | (3.2)       |
| Other   | 0.4                                   | (2.1)       | (1.0)       |
| Effective income tax rate   | 36.6%                                 | 10.2%       | 61.6%       |

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The significant components of deferred tax assets and liabilities are as follows:

|  | <b>March 31</b>          |                  |
|--|--------------------------|------------------|
|  | <b>2005</b>              | <b>2006</b>      |
|  | <b>(Yen in millions)</b> |                  |
| <b>Deferred tax assets:</b>  |                          |                  |
| Operating loss carryforwards for tax purposes                        | 193,212                  | 146,206          |
| Accrued pension and severance costs                                  | 159,610                  | 95,226           |
| Film costs   | 56,746                   | 51,937           |
| Warranty reserve and accrued expenses                                | 56,551                   | 52,008           |
| Future insurance policy benefits                                     | 36,654                   | 24,785           |
| Accrued bonus  | 34,536                   | 27,353           |
| Inventory intercompany profits and write-down                        | 30,270                   | 47,578           |
| Depreciation   | 15,320                   | 34,052           |
| Tax credit carryforwards   | 8,552                    | 39,443           |
| Reserve for doubtful accounts  | 6,574                    | 7,479            |
| Impairment of investments  | 52,501                   | 52,658           |
| Deferred revenue in the Pictures segment                             | 12,947                   | 16,713           |
| Other  | 88,077                   | 144,337          |
| <b>Gross deferred tax assets</b>                                     | <b>751,550</b>           | <b>739,775</b>   |
| Less: Valuation allowance  | (89,110)                 | (150,899)        |
| <b>Total deferred tax assets</b>                                     | <b>662,440</b>           | <b>588,876</b>   |
| <b>Deferred tax liabilities:</b>                                     |                          |                  |
| Insurance acquisition costs  | (135,083)                | (136,919)        |
| Unbilled accounts receivable in the Pictures segment                 | (57,314)                 | (49,953)         |
| Unrealized gains on securities                                       | (41,564)                 | (63,739)         |
| Intangible assets acquired through stock exchange offerings          | (35,418)                 | (34,627)         |
| Undistributed earnings of foreign subsidiaries                       | (30,865)                 | (66,719)         |
| Gain on securities contribution to employee retirement benefit trust | (6,184)                  | (3,992)          |
| Other  | (58,714)                 | (65,151)         |
| <b>Gross deferred tax liabilities</b>                                | <b>(365,142)</b>         | <b>(421,100)</b> |
| <b>Net deferred tax assets</b>                                       | <b>297,298</b>           | <b>167,776</b>   |

The valuation allowance mainly relates to deferred tax assets of Sony Corporation and certain consolidated subsidiaries with operating loss carryforwards and tax credit carryforwards for tax purposes that are not expected to be realized. The net changes in the total valuation allowance were an increase of 11,509 million yen for the fiscal year ended March 31, 2004, a decrease of 38,467 million yen for the fiscal year ended March 31, 2005 and an increase of 61,789 million yen for the fiscal year ended March 31, 2006. The increase during the fiscal year ended March 31, 2006 resulted from a provision for additional valuation allowances due to continued losses recorded by Sony Corporation

and certain subsidiaries mainly in the electronics business.

As a result of operating losses in the past, certain consolidated subsidiaries in the U.S. had recognized valuation allowances against deferred tax assets for U.S. federal and certain state taxes. However, because of

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improved operating results in recent years and a sound outlook for the future operating performance of certain consolidated subsidiaries in the U.S., Sony reversed 67,892 million yen of valuation allowance, resulting in a reduction of income tax expenses for the fiscal year ended March 31, 2005.

Tax benefits which have been realized through utilization of operating loss carryforwards for the fiscal years ended March 31, 2004, 2005 and 2006 were approximately 12,000 million yen, 30,000 million yen and 42,000 million yen, respectively.

Net deferred tax assets are included in the consolidated balance sheets as follows:

|                         |                       | <b>March 31</b>          |             |
|-------------------------|-----------------------|--------------------------|-------------|
|                         |                       | <b>2005</b>              | <b>2006</b> |
|                         |                       | <b>(Yen in millions)</b> |             |
| Current assets          | Deferred income taxes | 141,154                  | 221,311     |
| Other assets            | Deferred income taxes | 240,396                  | 178,751     |
| Current liabilities     | Other                 | (12,025)                 | (15,789)    |
| Long-term liabilities   | Deferred income taxes | (72,227)                 | (216,497)   |
| Net deferred tax assets |                       | 297,298                  | 167,776     |

At March 31, 2006, no deferred income taxes have been provided on undistributed earnings of foreign subsidiaries not expected to be remitted in the foreseeable future totaling 1,065,809 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. in a public offering to third parties in November 1991, as Sony does not anticipate any significant tax consequences on possible future disposition of its investment based on its tax planning strategies. The unrecognized deferred tax liabilities as of March 31, 2006 for such temporary differences amounted to 228,546 million yen.

Operating loss carryforwards for corporate income tax and local income tax purposes of Sony Corporation and certain consolidated subsidiaries in Japan at March 31, 2006 amounted to 121,530 million yen and 484,397 million yen, respectively, which are available as an offset against future taxable income. Deferred tax asset on the operating loss carryforwards for corporate income tax and local income tax in Japan are calculated by multiplying approximately 28% and 13%, respectively.

Operating loss carryforwards for tax purposes of certain foreign consolidated subsidiaries at March 31, 2006 amounted to 173,624 million yen.

With the exception of 111,265 million yen with no expiration period, total available operating loss carryforwards expire at various dates primarily up to 7 years.

Tax credit carryforwards for tax purposes at March 31, 2006 amounted to 39,443 million yen. With the exception of 9,116 million yen with no expiration period, total available tax credit carryforwards expire at various dates primarily up to 9 years.

Realization of deferred tax assets related to loss carryforwards and tax credit carryforwards is dependent on whether sufficient taxable income will be generated prior to expiration period. Although realization is not assured, management believes it is more likely than not that all of the deferred tax assets, less valuation allowance, will be realized. The amount of such net deferred tax assets considered realizable, however, could be changed in the near term if estimates of future taxable income during the carryforward period are changed.



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**21. Reconciliation of the differences between basic and diluted net income per share ( EPS )****(1) Income before cumulative effect of accounting changes and net income allocated to each class of stock:**

|   | <b>Fiscal Year Ended March 31,</b> |                |                |
|---|------------------------------------|----------------|----------------|
|   | <b>2004</b>                        | <b>2005</b>    | <b>2006</b>    |
|   | <b>(Yen in millions)</b>           |                |                |
| Income before cumulative effect of an accounting change allocated to common stock | 90,756                             | 168,498        | 122,308        |
| Income allocated to subsidiary tracking stock                                     | (128)                              | 53             | 1,308          |
| <b>Income before cumulative effect of an accounting change</b>                    | <b>90,628</b>                      | <b>168,551</b> | <b>123,616</b> |
| Net income allocated to common stock  | 88,639                             | 163,785        | 122,308        |
| Net income allocated to subsidiary tracking stock                                 | (128)                              | 53             | 1,308          |
| <b>Net income</b>   | <b>88,511</b>                      | <b>163,838</b> | <b>123,616</b> |

As discussed in Note 2, the earnings allocated to subsidiary tracking stock were determined based on the subsidiary tracking stockholders' economic interest. The accumulated losses of SCN (the subsidiary tracking stock entity as discussed in Note 15) used for computation of earnings per share attributable to subsidiary tracking stock were 1,764 million yen and 1,358 million yen as of March 31, 2004 and 2005, respectively.

As discussed in Notes 2 and 15, on October 26, 2005, the Board of Directors of Sony Corporation decided to terminate all shares of subsidiary tracking stock and convert such shares to shares of Sony common stock at a conversion rate of 1.114 share of Sony common stock per share of subsidiary tracking stock. All shares of subsidiary tracking stock were converted to shares of Sony common stock on December 1, 2005. As a result of the conversion, the earnings allocated to common stock for the fiscal year ended March 31, 2006 are calculated by subtracting the earnings allocated to the subsidiary tracking stock for the eight months ended November 30, 2005. The accumulated gains of SCN used for computation of earnings per share attributable to subsidiary tracking stock were 8,578 million yen as of November 30, 2005.

**(2) EPS attributable to common stock:**

Reconciliation of the differences between basic and diluted EPS for the fiscal years ended March 31, 2004, 2005 and 2006 is as follows:

|   | <b>Fiscal Year Ended March 31</b> |             |             |
|---|-----------------------------------|-------------|-------------|
|   | <b>2004</b>                       | <b>2005</b> | <b>2006</b> |
|   | <b>(Yen in millions)</b>          |             |             |
| Income before cumulative effect of an accounting change allocated to common stock | 90,756                            | 168,498     | 122,308     |
| Effect of dilutive securities:  |                                   |             |             |
| Convertible bonds   | 2,260                             | 1,209       |             |

|   |        |         |         |
|---|--------|---------|---------|
| Subsidiary tracking stock   |        | (0)     | (29)    |
| Income before cumulative effect of an accounting change allocated to common stock for diluted EPS computation | 93,016 | 169,707 | 122,279 |

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|   | Thousands of shares |            |           |
|---|---------------------|------------|-----------|
| Weighted-average shares                             | 923,650             | 931,125    | 997,781   |
| Effect of dilutive securities:                      |                     |            |           |
| Warrants and stock acquisition rights               | 48                  | 61         | 915       |
| Convertible bonds                                   | 121,120             | 112,589    | 47,468    |
| Weighted-average shares for diluted EPS computation | 1,044,818           | 1,043,775  | 1,046,164 |
|   |                     | <b>Yen</b> |           |
| Basic EPS   | 98.26               | 180.96     | 122.58    |
| Diluted EPS   | 89.03               | 162.59     | 116.88    |

Potential common stock upon the exercise of warrants and stock acquisition rights, which were excluded from the computation of diluted EPS since they have an exercise price in excess of the average market value of Sony's common stock during the fiscal year, were 6,796 thousand shares, 7,987 thousand shares and 10,483 thousand shares for the fiscal years ended March 31, 2004, 2005 and 2006, respectively.

Warrants and stock acquisition rights of subsidiary tracking stock for the fiscal year ended March 31, 2004 which have a potentially dilutive effect by decreasing net income allocated to common stock, were excluded from the computation of diluted EPS since they did not have a dilutive effect.

Stock options issued by affiliated companies accounted for under the equity method for the fiscal years ended March 31, 2004, 2005 and 2006, which have a potentially dilutive effect by decreasing net income allocated to common stock, were excluded from the computation of diluted EPS since such stock options did not have a dilutive effect.

On May 1, 2003, Sony implemented a share exchange as a result of which CIS Corporation became a wholly-owned subsidiary. As a result of this share exchange, Sony issued 1,088 thousand shares. The shares were included in the computation of basic and diluted EPS.

As a result of the adoption of EITF Issue No. 04-8, Sony's diluted EPS of income before cumulative effect of an accounting change for the fiscal year ended March 31, 2004 was restated in the above table (Note 2).

**(3) EPS attributable to subsidiary tracking stock:**

Weighted-average shares used for computation of EPS attributable to subsidiary tracking stock for the fiscal years ended March 31, 2004 and 2005 were 3,072 thousand shares. At March 31, 2004 and 2005, there were no potentially dilutive securities for net income per subsidiary tracking stock, as tracking stock shares outstanding were increased upon potential subsidiary tracking stocks being exercised, which resulted in a proportionate increase in earnings allocated to the subsidiary tracking stock. However, they could have a dilutive effect on net income per common stock, as earnings allocated to the common stock would be decreased.

As discussed, all shares of subsidiary tracking stock were converted to shares of Sony common stock on December 1, 2005. As a result of the conversion, earnings per share of the subsidiary tracking stock for the fiscal year ended March 31, 2006 are not presented.



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**22. Variable interest entities**

Sony has, from time to time, entered into various arrangements with VIEs. These arrangements consist of facilities which provide for the leasing of certain property, the financing of film production, the implementation of a stock option plan for Japanese employees and the U.S. based music publishing business. As described in Note 2, the FASB issued FIN No. 46, which requires the consolidation or disclosure of VIEs. The VIEs that have been consolidated by Sony are described as follows:

Sony leases the headquarters of its U.S. subsidiary from a VIE, which has been consolidated by Sony since July 1, 2003. Upon consolidation of the VIE, assets and liabilities increased by 25,277 million yen and 27,035 million yen, respectively, and a cumulative effect of accounting change of 1,729 million yen was charged to net income with no tax effect. Sony has the option to purchase the building at any time during the lease term which expires in December 2008 for 29,942 million yen. The debt held by the VIE is unsecured. At the end of the lease term, Sony has agreed to either renew the lease, purchase the building or remarket it to a third party on behalf of the owner. If the sales price is less than 29,942 million yen, Sony is obligated to make up the lesser of the shortfall or 25,128 million yen.

A subsidiary in the Pictures segment entered into a joint venture agreement with a VIE for the purpose of funding the acquisition of certain international film rights. The subsidiary is required to distribute the product internationally, for contractually defined fees determined as percentages of gross receipts, as defined, and is responsible for all distribution and marketing expenses, which are recouped from such distribution fees. The VIE was capitalized with total financing of 47,673 million yen. Of this amount, 1,292 million yen was contributed by the subsidiary, 11,155 million yen was provided by unrelated third party investors and the remaining funding is provided through a 35,226 million yen bank credit facility. On July 1, 2003, Sony consolidated this entity. Upon consolidation of the VIE, assets and liabilities increased by 10,179 million yen and 10,586 million yen, respectively, and a cumulative effect of accounting change of 388 million yen was charged to net income with no tax effect. As of March 31, 2006, there were no amounts outstanding under the bank credit facility. Under the agreement, the subsidiary's 1,292 million yen equity investment is the last equity to be repaid. Additionally, it must pay to the third party investors up to 2,231 million yen of any losses out of a portion of its distribution fees. Any losses incurred by the VIE over and above 3,523 million yen will be shared by the other investors. The subsidiary acquired the international distribution rights, as defined, to twelve pictures meeting certain minimum requirements within the time period provided in the agreement.

Sony utilized a VIE to implement a SAR plan (Note 16) for selected Japanese employees. The VIE has been consolidated by Sony since its establishment. With respect to this entity, there was no impact to Sony's results of operations and financial position upon the adoption of FIN No. 46. Under the terms of the SAR plan, upon exercise, Japanese employees receive cash equal to the amount that the market price of Sony Corporation's common stock exceeds the strike price of the plan. In order to minimize cash flow exposure associated with the plan, Sony held treasury stock through the VIE. The VIE purchased the common stock with funding provided by the employee's cash contribution and a bank loan. The SAR plan was terminated during the fiscal year ended March 31, 2006 and there were no amounts outstanding under the bank loan at March 31, 2006.

Sony's U.S. based music publishing subsidiary is a joint venture with a third party investor that was 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. In addition, the third party investor receives a guaranteed annual dividend of up to 7 million U.S. dollars and has the option to put its 50% ownership interest to Sony in exchange for a payment of 200 million U.S. dollars. At March 31, 2006, the fair value of the third party's 50% interest exceeded 200 million U.S. dollars.

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VIEs in which Sony holds a significant variable interest but is not the primary beneficiary are described as follows:

As described in Note 5, on April 8, 2005, a consortium led by SCA and its equity partners completed the acquisition of MGM. Sony has reviewed the investment and determined that MGM Holdings is a VIE. However, MGM Holdings is not consolidated but accounted for under the equity method as Sony is not the primary beneficiary of this VIE as Sony absorbs less than 50% of expected losses and does not have the right to receive greater than 50% of expected residual returns. MGM continues to operate as a private company and continues to engage in the production and distribution of film content. Through its current ownership of MGM Holdings' common stock, Sony records 45% of MGM Holdings' net income (loss) as equity in net income of affiliated companies.

On December 30, 2005, a subsidiary in the Pictures segment entered into a production/ co-financing agreement with a VIE to co-finance 11 films scheduled to be released over the following 15 months. The subsidiary will receive approximately 400 million U.S. dollars over the term of the agreement. The subsidiary is responsible for marketing and distribution of the product through its global distribution channels. The VIE shares in the net profits of the films after the subsidiary recoups a distribution fee, its marketing and distribution expenses, and third party participation and residual costs. As of March 31, 2006, only one co-financed film has been released by the company. The subsidiary did not make any equity investment in the VIE nor issue any guarantees with respect to the VIE. In April 2006, the subsidiary entered into a second production/co-financing agreement with a VIE to co-finance an additional 11 films scheduled to be released over the following 24 months. The subsidiary will receive approximately 330 million U.S. dollars over the term of the agreement. Similar to the first agreement, the subsidiary is responsible for marketing and distribution of the product through its global distribution channels. The VIE shares in the net profits of the films after the subsidiary recoups a distribution fee, its marketing and distribution expenses, and third party participation and residual costs.

**23. Commitments and contingent liabilities**

**(1) Commitments:**

**A. Purchase Commitments**

Commitments outstanding at March 31, 2006 amounted to 285,774 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, 2006, such commitments outstanding were 69,286 million yen.

Certain subsidiaries in the Pictures segment have entered into agreements with creative talent for the development and production of films and television programming as well as agreements with third parties to acquire completed films, or certain rights therein. These agreements cover various periods through March 31, 2008. As of March 31, 2006, these subsidiaries were committed to make payments under such contracts of 43,659 million yen.

A subsidiary in the Pictures segment has also entered into a distribution agreement with a third party to distribute, in certain markets and territories, all feature length films produced or acquired by the third party during the term of the agreement. The distribution agreement expires on December 31, 2006 if a minimum of 36 films have been delivered as of that date. If 36 films have not been delivered by December 31, 2006, the distribution agreement expires on the earlier of the delivery of the 36th film or May 25, 2007. It is estimated that the third party will produce or acquire a total of 43 films under the distribution agreement. The subsidiary has the right to distribute the films for 15 years from the initial theatrical release of the film. Under the terms of the distribution agreement,



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

the subsidiary must fund a portion of the production cost and is responsible for all distribution and marketing expenses. As of March 31, 2006, 34 films have been released or funded by the subsidiary. The subsidiary's estimated commitment to fund the production of the remaining films under this agreement is 33,077 million yen.

In April 2005, Sony Corporation has entered into a partnership program contract with Fédération Internationale de Football Association ( FIFA ). Through this program Sony Corporation will be able to exercise various rights as an official sponsor of FIFA events including the FIFA World Cup<sup>tm</sup>\* from 2007 to 2014. As of March 31, 2006, Sony Corporation was committed to make payments under such contract of 34,639 million yen.

The schedule of the aggregate amounts of year-by-year payment of purchase commitments during the next five years and thereafter is as follows:

| <b>Fiscal Year Ending March 31,</b> | <b>(Yen in millions)</b> |
|-------------------------------------|--------------------------|
| 2007                                | 139,130                  |
| 2008                                | 44,538                   |
| 2009                                | 46,966                   |
| 2010                                | 6,003                    |
| 2011                                | 6,553                    |
| Thereafter                          | 42,584                   |
| <b>Total</b>                        | <b>285,774</b>           |

**B. 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, 2006, the total unused portion of the line of credit extended under these contracts was 326,691 million yen.

In August 2004, Sony and Bertelsmann AG combined their recorded music businesses in a joint venture. In connection with the establishment of the SONY BMG joint venture, Sony and Bertelsmann AG have entered into a 5 year Revolving Credit Agreement with the joint venture. Under the terms of the Credit Agreement, Sony and Bertelsmann have each agreed to provide one-half of the funding. The Credit Agreement, which matures on August 5, 2009, provides for a base commitment of 300 million U.S. dollars and additional incremental borrowings of up to 150 million U.S. dollars.

As of March 31, 2006, the joint venture had no borrowings outstanding under the Credit Agreement. Accordingly, Sony's outstanding commitment under the Credit Agreement as of March 31, 2006 was 26,325 million yen.

The aggregate amounts of future year-by-year payments for these loan commitments cannot be determined.

\* FIFA World Cup<sup>tm</sup> is a registered trademark of FIFA.





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**SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
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**(2) Contingent liabilities:**

Sony had contingent liabilities including guarantees given in the ordinary course of business, which amounted to 21,072 million yen at March 31, 2006. The major components of the contingent liabilities are as follows:

Sony has issued loan guarantees to related parties comprised of affiliated companies accounted for under the equity method and unconsolidated subsidiaries. The terms of these guarantees are mainly within 1 year. Sony would be required to perform under these guarantees upon non-performance of the primary borrowers. The contingent liability related to these guarantees was 9,325 million yen and was not recorded on the consolidated balance sheet as of March 31, 2006.

The European Commission ( EC ) has issued the Waste Electrical and Electronic Equipment ( WEEE ) directive in February 2003. The WEEE directive generally requires electronics producers after August 2005 to be responsible for financing the cost for collection, treatment, recovery and safe disposal of waste products. In some member states of the European Union ( EU ) the directive has been transposed into national legislation subject to which Sony recognizes the liability for obligations associated with WEEE. During the fiscal year ended March 31, 2006, the cost that has been accrued in respect to the above mentioned WEEE responsibilities was not material to Sony's results of operations and financial position. While the cost of this WEEE directive to Sony cannot be determined before the regulation is finally adopted in all individual member states that have to transpose the directive into national legislation, Sony continues to evaluate the impact of this regulation.

Sony has agreed to indemnify certain third parties against tax losses resulting from transactions entered into in the normal course of business. The maximum amount of potential future payments under these guarantees cannot be estimated at this time. These guarantees were not recorded on the consolidated balance sheet as of March 31, 2006.

Sony Corporation and certain of its subsidiaries are defendants in several pending lawsuits. However, based upon the information currently available to both Sony and its legal counsel, management of Sony believes that damages from such lawsuits, if any, would not have a material effect on Sony's consolidated financial statements.

The changes in product warranty liability for the fiscal years ended March 31, 2005 and 2006 are as follows:

|   | <b>Fiscal Year Ended<br/>March 31,</b> |             |
|---|--|-------------|
|   | <b>2005</b>                            | <b>2006</b> |
|   | <b>(Yen in millions)</b>               |             |
| Balance at beginning of the fiscal year               | 50,670                                 | 44,919      |
| Additional liabilities for warranties                 | 33,493                                 | 48,471      |
| Settlements (in cash or in kind)                      | (40,358)                               | (45,162)    |
| Changes in estimate for pre-existing warranty reserve | (751)                                  | 70          |
| Translation adjustment                                | 1,865                                  | 1,172       |
| Balance at end of the fiscal year                     | 44,919                                 | 49,470      |

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**SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES  
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**24. Business segment information**

Effective for the fiscal year ended March 31, 2006, Sony has partly changed its business segment configuration as described below.

As of August 1, 2004, Sony and Bertelsmann AG combined their recorded music businesses in a joint venture. In connection with the establishment of this joint venture, the non-Japan based disc manufacturing and physical distribution businesses, formerly included within the Music segment, have been reclassified to the Other category in the Electronics segment. In addition, effective April 1, 2005, a similar change was made with respect to the Japan based disc manufacturing businesses. Results for the fiscal year ended March 31, 2004 and 2005 in the Electronics segment have been restated to account for these reclassifications. As a result of these changes in the Music segment, Sony no longer breaks out the Music segment as a reportable segment as it no longer meets the materiality threshold. Effective April 1, 2005, results for the Music segment are included within All Other. Accordingly, results for the fiscal year ended March 31, 2004 and 2005 in the Electronics segment and All Other have been restated to conform to the presentation for the fiscal year ended March 31, 2006.

In July 2004, in order to establish a more efficient and coordinated semiconductor supply structure, the Sony group has integrated its semiconductor manufacturing business by transferring Sony Computer Entertainment's semiconductor manufacturing operation from the Game segment to the Electronics segment. As a result of this transfer, sales revenue and expenditures associated with this operation are now recorded within the Semiconductor category in the Electronics segment. The results for the fiscal year ended March 31, 2004 and the three months ended June 30, 2004 have not been restated as such comparable figures cannot be practically obtained given that it was not operated as a separate line business within the Game segment. This integration of the semiconductor manufacturing businesses is a part of Sony's semiconductor strategy of utilizing semiconductor technologies and manufacturing equipment originally developed or designed for the Game businesses within the Sony group as a whole.

The Electronics segment designs, develops, manufactures and distributes audio-visual, informational and communicative equipment, instruments and devices throughout the world. The Game segment designs, develops and sells PlayStation, PlayStation 2 and PlayStation Portable game consoles and related software mainly in Japan, the United States of America and Europe, and licenses to third party software developers. The Pictures segment develops, produces and manufactures image-based software, including film, video, and television mainly in the United States of America, and markets, distributes and broadcasts in the worldwide market. The Financial Services segment represents primarily individual life insurance and non-life insurance businesses in the Japanese market, leasing and credit financing businesses and bank business in Japan. All Other consists of various operating activities, primarily including a business focused on network service business including Internet-related services, an animation production and marketing business, an imported general merchandise retail business, an advertising agency business in Japan, and the Music business which were formerly reported as a reportable segment, described above. Sony's products and services are generally unique to a single operating segment.

The operating segments reported 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 executive management in deciding how to allocate resources and in assessing performance.

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**SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
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**Business segments -***Sales and operating revenue:*

|                                     | <b>Fiscal Year Ended March 31</b> |                  |                  |
|-------------------------------------|-----------------------------------|------------------|------------------|
|                                     | <b>2004</b>                       | <b>2005</b>      | <b>2006</b>      |
|                                     | <b>(Yen in millions)</b>          |                  |                  |
| <b>Sales and operating revenue:</b> |                                   |                  |                  |
| <b>Electronics</b>                  |                                   |                  |                  |
| Customers                           | 4,858,631                         | 4,806,494        | 4,763,555        |
| Intersegment                        | 228,834                           | 260,339          | 386,922          |
| <b>Total</b>                        | <b>5,087,465</b>                  | <b>5,066,833</b> | <b>5,150,477</b> |
| <b>Game</b>                         |                                   |                  |                  |
| Customers                           | 753,732                           | 702,524          | 918,251          |
| Intersegment                        | 26,488                            | 27,230           | 40,368           |
| <b>Total</b>                        | <b>780,220</b>                    | <b>729,754</b>   | <b>958,619</b>   |
| <b>Pictures</b>                     |                                   |                  |                  |
| Customers                           | 756,370                           | 733,677          | 745,859          |
| Intersegment                        |                                   |                  |                  |
| <b>Total</b>                        | <b>756,370</b>                    | <b>733,677</b>   | <b>745,859</b>   |
| <b>Financial Services</b>           |                                   |                  |                  |
| Customers                           | 565,752                           | 537,715          | 720,566          |
| Intersegment                        | 27,792                            | 22,842           | 22,649           |
| <b>Total</b>                        | <b>593,544</b>                    | <b>560,557</b>   | <b>743,215</b>   |
| <b>All Other</b>                    |                                   |                  |                  |
| Customers                           | 561,906                           | 379,206          | 327,205          |
| Intersegment                        | 100,903                           | 80,688           | 81,676           |
| <b>Total</b>                        | <b>662,809</b>                    | <b>459,894</b>   | <b>408,881</b>   |
| <b>Elimination</b>                  | <b>(384,017)</b>                  | <b>(391,099)</b> | <b>(531,615)</b> |
| <b>Consolidated total</b>           | <b>7,496,391</b>                  | <b>7,159,616</b> | <b>7,475,436</b> |

Electronics intersegment amounts primarily consist of transactions with the Game segment, Pictures segment and All Other. All Other intersegment amounts primarily consist of transactions with the Electronics and Game segments.

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**SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Segment profit or loss:*

|  | <b>Fiscal Year Ended March 31</b> |                |                |
|--|-----------------------------------|----------------|----------------|
|  | <b>2004</b>                       | <b>2005</b>    | <b>2006</b>    |
|  | <b>(Yen in millions)</b>          |                |                |
| <b>Operating income (loss):</b>                |                                   |                |                |
| Electronics                                    | (8,082)                           | (34,273)       | (30,930)       |
| Game   | 67,578                            | 43,170         | 8,747          |
| Pictures                                       | 35,230                            | 63,899         | 27,436         |
| Financial Services                             | 55,161                            | 55,490         | 188,323        |
| All Other                                      | (16,225)                          | 4,188          | 16,183         |
| <b>Total</b>                                   | <b>133,662</b>                    | <b>132,474</b> | <b>209,759</b> |
| Elimination                                    | 12,658                            | 14,016         | 13,786         |
| <b>Unallocated amounts:</b>                    |                                   |                |                |
| Corporate expenses                             | (47,418)                          | (32,571)       | (32,290)       |
| <b>Consolidated operating income</b>           | <b>98,902</b>                     | <b>113,919</b> | <b>191,255</b> |
| Other income                                   | 122,290                           | 97,623         | 153,616        |
| Other expenses                                 | (77,125)                          | (54,335)       | (58,542)       |
| <b>Consolidated income before income taxes</b> | <b>144,067</b>                    | <b>157,207</b> | <b>286,329</b> |

Operating income is sales and operating revenue less costs and operating expenses.

*Assets:*

|                           | <b>March 31</b>          |                  |                   |
|---------------------------|--------------------------|------------------|-------------------|
|                           | <b>2004</b>              | <b>2005</b>      | <b>2006</b>       |
|                           | <b>(Yen in millions)</b> |                  |                   |
| <b>Total assets:</b>      |                          |                  |                   |
| Electronics               | 3,036,404                | 3,476,465        | 3,548,720         |
| Game                      | 684,226                  | 482,037          | 520,394           |
| Pictures                  | 856,517                  | 863,056          | 1,029,907         |
| Financial Services        | 3,475,039                | 3,885,517        | 4,565,607         |
| All Other                 | 763,911                  | 577,733          | 617,868           |
| <b>Total</b>              | <b>8,816,097</b>         | <b>9,284,808</b> | <b>10,282,496</b> |
| Elimination               | (282,057)                | (398,074)        | (361,392)         |
| Corporate assets          | 556,622                  | 612,366          | 686,649           |
| <b>Consolidated total</b> | <b>9,090,662</b>         | <b>9,499,100</b> | <b>10,607,753</b> |

Unallocated corporate assets consist primarily of cash and cash equivalents, securities investments and property, plant and equipment maintained for general corporate purposes.

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**SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Other significant items:*

|  | <b>Fiscal Year Ended March 31</b> |                |                |
|--|-----------------------------------|----------------|----------------|
|  | <b>2004</b>                       | <b>2005</b>    | <b>2006</b>    |
|  | <b>(Yen in millions)</b>          |                |                |
| <b>Depreciation and amortization:</b>                              |                                   |                |                |
| Electronics  | 214,400                           | 276,704        | 304,561        |
| Game   | 57,256                            | 16,504         | 5,087          |
| Pictures   | 7,844                             | 5,598          | 7,401          |
| Financial Services, including deferred insurance acquisition costs | 56,586                            | 52,788         | 47,736         |
| All Other  | 26,066                            | 17,012         | 12,755         |
| <b>Total</b>   | <b>362,152</b>                    | <b>368,606</b> | <b>377,540</b> |
| Corporate  | 4,117                             | 4,259          | 4,303          |
| <b>Consolidated total</b>  | <b>366,269</b>                    | <b>372,865</b> | <b>381,843</b> |
| <b>Capital expenditures for segment assets:</b>                    |                                   |                |                |
| Electronics  | 253,621                           | 312,216        | 328,625        |
| Game   | 100,360                           | 18,824         | 8,405          |
| Pictures   | 6,013                             | 5,808          | 10,097         |
| Financial Services   | 4,618                             | 3,845          | 4,456          |
| All Other  | 12,134                            | 7,928          | 4,186          |
| <b>Total</b>   | <b>376,746</b>                    | <b>348,621</b> | <b>355,769</b> |
| Corporate  | 1,518                             | 8,197          | 28,578         |
| <b>Consolidated total</b>  | <b>378,264</b>                    | <b>356,818</b> | <b>384,347</b> |

The capital expenditures in the above table represent the additions to fixed assets of each segment.

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**SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table is a breakdown of Electronics sales and operating revenue to external customers by product category. The Electronics segment is managed as a single operating segment by Sony's management. Effective for the fiscal year ended March 31, 2006, Sony has partly changed its product category configuration. The main change is that the professional-use projector product group has been moved from Televisions to Information and Communications. Accordingly, sales and operating revenue for the fiscal years ended March 31, 2004 and 2005 have been restated to conform to the presentation for the fiscal year ended March 31, 2006.

|                                | <b>Fiscal Year Ended March 31</b> |               |               |
|--------------------------------|-----------------------------------|---------------|---------------|
|                                | <b>2004</b>                       | <b>2005</b>   | <b>2006</b>   |
|                                | <b>(Yen in millions)</b>          |               |               |
| Audio                          | 675,496                           | 571,864       | 536,187       |
| Video                          | 949,320                           | 1,036,328     | 1,021,325     |
| Televisions                    | 884,600                           | 921,195       | 927,769       |
| Information and Communications | 878,855                           | 816,150       | 842,537       |
| Semiconductors                 | 253,237                           | 246,314       | 240,771       |
| Components                     | 623,799                           | 619,477       | 656,768       |
| Other                          | 593,324                           | 595,166       | 538,198       |
| <br>Total                      | <br>4,858,631                     | <br>4,806,494 | <br>4,763,555 |

*Geographic information -*

Sales and operating revenue which are attributed to countries based on location of customers for the fiscal years ended March 31, 2004, 2005 and 2006 and long-lived assets as of March 31, 2004, 2005 and 2006 are as follows:

|                              | <b>Fiscal Year Ended March 31</b> |               |               |
|------------------------------|-----------------------------------|---------------|---------------|
|                              | <b>2004</b>                       | <b>2005</b>   | <b>2006</b>   |
|                              | <b>(Yen in millions)</b>          |               |               |
| Sales and operating revenue: |                                   |               |               |
| Japan                        | 2,220,747                         | 2,100,793     | 2,168,723     |
| U.S.A.                       | 2,121,110                         | 1,977,310     | 1,957,644     |
| Europe                       | 1,765,053                         | 1,612,536     | 1,715,704     |
| Other                        | 1,389,481                         | 1,468,977     | 1,633,365     |
| <br>Total                    | <br>7,496,391                     | <br>7,159,616 | <br>7,475,436 |

|  | <b>March 31</b> |             |             |
|--|-----------------|-------------|-------------|
|  | <b>2004</b>     | <b>2005</b> | <b>2006</b> |

**(Yen in millions)**



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|                    |           |           |           |
|--------------------|-----------|-----------|-----------|
| Long-lived assets: |           |           |           |
| Japan              | 1,430,443 | 1,414,632 | 1,449,997 |
| U.S.A.             | 671,534   | 662,120   | 757,055   |
| Europe             | 211,147   | 183,620   | 165,352   |
| Other              | 133,640   | 144,896   | 159,647   |
| Total              | 2,446,764 | 2,405,268 | 2,532,051 |

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**SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

There are not any individually material countries with respect to the sales and operating revenue and long-lived assets included in Europe and Other areas.

Transfers between reportable business or geographic segments are made at arms-length prices.

There are no sales and operating revenue with a single major external customer for the fiscal years ended March 31, 2004, 2005 and 2006.

The following information shows sales and operating revenue and operating income by geographic origin for the fiscal years ended March 31, 2004, 2005 and 2006. In addition to the disclosure requirements under FAS No. 131, Sony discloses this supplemental information in accordance with disclosure requirements of the Japanese Securities and Exchange Law, to which Sony, as a Japanese public company, is subject.

|                                     | <b>Fiscal Year Ended March 31</b> |                  |                  |
|-------------------------------------|-----------------------------------|------------------|------------------|
|                                     | <b>2004</b>                       | <b>2005</b>      | <b>2006</b>      |
|                                     | <b>(Yen in millions)</b>          |                  |                  |
| <b>Sales and operating revenue:</b> |                                   |                  |                  |
| Japan                               |                                   |                  |                  |
| Customers                           | 2,352,923                         | 2,249,548        | 2,253,275        |
| Intersegment                        | 2,514,698                         | 2,575,093        | 3,264,281        |
| <b>Total</b>                        | <b>4,867,621</b>                  | <b>4,824,641</b> | <b>5,517,556</b> |
| U.S.A.                              |                                   |                  |                  |
| Customers                           | 2,341,304                         | 2,166,323        | 2,197,304        |
| Intersegment                        | 198,450                           | 235,362          | 279,203          |
| <b>Total</b>                        | <b>2,539,754</b>                  | <b>2,401,685</b> | <b>2,476,507</b> |
| Europe                              |                                   |                  |                  |
| Customers                           | 1,647,694                         | 1,524,182        | 1,575,779        |
| Intersegment                        | 66,950                            | 52,417           | 50,400           |
| <b>Total</b>                        | <b>1,714,644</b>                  | <b>1,576,599</b> | <b>1,626,179</b> |
| Other                               |                                   |                  |                  |
| Customers                           | 1,154,470                         | 1,219,563        | 1,449,078        |
| Intersegment                        | 813,798                           | 804,721          | 1,038,827        |
| <b>Total</b>                        | <b>1,968,268</b>                  | <b>2,024,284</b> | <b>2,487,905</b> |
| Elimination                         | (3,593,896)                       | (3,667,593)      | (4,632,711)      |
| <b>Consolidated total</b>           | <b>7,496,391</b>                  | <b>7,159,616</b> | <b>7,475,436</b> |
| <b>Operating income:</b>            |                                   |                  |                  |
| Japan                               | (69,875)                          | (765)            | 199,491          |
| U.S.A.                              | 85,290                            | 72,414           | 11,291           |
| Europe                              | 78,822                            | 12,186           | (25,171)         |
| Other                               | 70,543                            | 58,554           | 41,953           |
| Corporate and elimination           | (65,878)                          | (28,470)         | (36,309)         |

|                    |        |         |         |
|--------------------|--------|---------|---------|
| Consolidated total | 98,902 | 113,919 | 191,255 |
|--------------------|--------|---------|---------|

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**VALUATION AND QUALIFYING ACCOUNTS  
SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES**

|   | <b>Balance<br/>at<br/>Beginning<br/>of Period</b> | <b>Additions<br/>charged<br/>to<br/>costs and<br/>expenses</b> | <b>Deductions<br/>(Note 1)</b> | <b>Other<br/>(Note 2)</b> | <b>Balance<br/>at End<br/>of<br/>Period</b> |
|---|---|--|--------------------------------|---------------------------|---|
| <b>(Yen in millions)</b>                          |   |  |                                |                           |   |
| <b>Fiscal Year Ended March 31, 2004:</b>          |   |  |                                |                           |   |
| Allowance for doubtful accounts and sales returns | 110,494   | 78,323   | (65,281)                       | (10,862)                  | 112,674                                     |
| <b>Fiscal Year Ended March 31, 2005:</b>          |   |  |                                |                           |   |
| Allowance for doubtful accounts and sales returns | 112,674   | 56,863   | (84,507)                       | 2,679                     | 87,709                                      |
| <b>Fiscal Year Ended March 31, 2006:</b>          |   |  |                                |                           |   |
| Allowance for doubtful accounts and sales returns | 87,709  | 52,422   | (56,772)                       | 6,204                     | 89,563                                      |

**Notes:**

1. Amounts written off.
2. Translation adjustment.

|   | <b>Balance at<br/>Beginning<br/>of Period</b> | <b>Additions</b> | <b>Deductions</b> | <b>Other<br/>(Note 1)</b> | <b>Balance<br/>at End<br/>of Period</b> |
|---|---|------------------|-------------------|---------------------------|---|
| <b>Fiscal Year Ended March 31, 2004:</b>  |   |                  |                   |                           |   |
| Valuation allowance - Deferred tax assets | 116,068                                       | 63,936           | (39,199)          | (13,228)                  | 127,577                                 |
| <b>Fiscal Year Ended March 31, 2005:</b>  |   |                  |                   |                           |   |
| Valuation allowance - Deferred tax assets | 127,577                                       | 67,889           | (104,670)         | (1,686)                   | 89,110                                  |
| <b>Fiscal Year Ended March 31, 2006:</b>  |   |                  |                   |                           |   |
| Valuation allowance - Deferred tax assets | 89,110  | 72,340           | (11,234)          | 683                       | 150,899                                 |

**Note:**

1. Translation adjustment.