

SONY CORP
Form 6-K
June 03, 2005

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**SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549**

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

**Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934**

For the month of June 2005
Commission File Number: 001-06439

SONY CORPORATION

(Translation of registrant's name into English)

7-35 KITASHINAGAWA 6-CHOME, SHINAGAWA-KU, TOKYO, JAPAN
(Address of principal executive offices)

The registrant files annual reports under cover of Form 20-F.

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F,

Form 20-F Form 40-F

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934, Yes No

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):82-_____

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SONY CORPORATION
(Registrant)

By: /s/ Katsumi Ihara
(Signature)
Katsumi Ihara
Executive Deputy President, Group
Chief Strategy Officer and Chief
Financial Officer

Date: June 3, 2005

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List of materials

Document attached hereto:

1. Consolidated Financial Statements for the fiscal year ended March 31, 2005
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Consolidated Financial Statements

For the year ended March 31, 2005

Sony Corporation

TOKYO, JAPAN

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Sony's Corporate Governance Practices

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>

Cautionary Statement

Statements made in this release 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, may or might and words of similar meaning in 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 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, Music and Pictures segments); (iv) Sony's ability to implement successfully personnel reduction and other business reorganization activities in its Electronics, Music and Pictures segments; (v) Sony's ability to implement successfully its network strategy for its Electronics, Music, Pictures and Other segments and to develop and implement successful sales and distribution strategies in its Music and Pictures segments in light of the Internet and other technological developments; (vi) 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); and (vii) the success of Sony's joint ventures and alliances. Risks and uncertainties also include the impact of any future events with material unforeseen impacts.

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Financial Highlights

Sony Corporation and Consolidated Subsidiaries Year ended March 31

Operating Results

	Yen in billions except per share amounts and			Percent change 2005/2004	Dollars in millions except per share
	number of employees		2005		amounts 2005
	2004				
FOR THE YEAR					
Sales and operating revenue	¥ 7,496.4	¥ 7,159.6	-4.5%	\$	66,912
Operating income	98.9	113.9	+15.2		1,065
Income before income taxes	144.1	157.2	+9.1		1,469
Income before cumulative effect of accounting changes	90.6	168.6	+86.0		1,575
Net income	88.5	163.8	+85.1		1,531
Per share of common stock:					
Income before cumulative effect of an accounting change					
Basic	¥ 98.26	¥ 180.96	+84.2%	\$	1.69
Diluted	89.03	162.59	+82.6		1.52
Net income					
Basic	95.97	175.90	+83.3		1.64
Diluted	87.00	158.07	+81.7		1.48
Cash dividends	25.00	25.00			0.23
AT YEAR-END					
Stockholders' equity	¥ 2,378.0	¥ 2,870.3	+20.7%	\$	26,826
Total assets	9,090.7	9,499.1	+4.5		88,777
Number of employees	162,000	151,400			

Notes: 1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥107 = U.S. \$1, the approximate Tokyo foreign exchange market rate as of March 31, 2005.

2. In July 2003, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants (AcSEC) issued the 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 (\$48 million) for the year ended March 31, 2005. Additionally, on April 1, 2004, Sony recognized ¥4,713 million (\$44 million) of loss (net of income taxes of ¥2,675 million) as a cumulative effect of an accounting change. In addition, the separate account assets, which are defined by insurance business law in Japan and were previously included in Securities investments and other on the consolidated balance sheet, were excluded from the category of separate accounts under the provision of SOP 03-1. Accordingly, the assets previously treated as separate account assets are now treated within general account assets.

3. 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 FAS No.128, Sony had not previously included in the computation of diluted earnings per share (EPS) the number of potential shares of common stock issuable upon the conversion of contingently convertible debt instruments (Co-Cos) that have not met the conditions to exercise the associated stock acquisition rights. EITF Issue No. 04-8 requires that the maximum number of shares 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 such 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 its net income for the year ended March 31, 2004 were restated. Sony's diluted EPS of its income before cumulative effect of an accounting change and net income for the year ended March 31, 2005 were decreased by ¥7.26 (\$0.07) and ¥7.06 (\$0.07), respectively, compared to those before the adoption of EITF Issue No. 04-8.
4. 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 Bulletins (ARB) No.51* , and the revised FIN No.46 was issued in December 2003. This interpretation addresses consolidation by a primary beneficiary of a variable interest entity (VIE). Sony adopted FIN No.46 on July 1, 2003. As a result of the adoption of FIN No.46, Sony recognized ¥2,117 million of loss as the cumulative effect of an accounting change. Additionally, Sony's assets and liabilities increased by ¥96,776 million and ¥97,950 million, respectively, including cash and cash equivalents of ¥1,521 million.

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Operational Review

Consolidated Results for the Fiscal Year ended March 31, 2005

Unless otherwise specified, all amounts are on the basis of Generally Accepted Accounting Principles in the U.S. (U.S. GAAP).

U.S. dollar amounts have been translated from yen, for convenience only, at the rate of C107=U.S.\$1, the approximate Tokyo foreign exchange market rate as of March 31, 2005.

Sales and operating revenue (sales) decreased 4.5% compared with the previous fiscal year; on a local currency basis sales decreased 3%. (For all references herein to results on a local currency basis, see Note I on page 11.) This reflects both the establishment of Sony BMG Music Entertainment (Sony BMG) (please refer to note on Page 5) and a change in revenue recognition method at Sony Life Insurance Co., Ltd. (Sony Life).

Sales within the Electronics segment remained largely unchanged. Although sales of flat panel televisions, digital still cameras and LCD rear projection televisions increased, there was a decrease in sales primarily of CRT televisions and portable audio products. In the Game segment, an increase in software sales was more than offset by a decline in hardware sales mainly due to strategic price reductions, resulting in a decrease to overall segment sales. In the Music segment, although sales at Sony Music Entertainment (Japan) Inc. (SMEJ) increased, overall sales decreased due to the fact that Sony BMG, a recorded music business joint venture formed with Bertelsmann AG, has been accounted for by the equity method since August 2004 (please refer to the note on page 5). In the Pictures segment, despite the strong contribution of *Spider-Man 2*, there was a decrease in sales as a result of the appreciation of the yen. In the Financial Services segment, revenue decreased mainly due to a decrease in revenue from insurance premiums at Sony Life.

Operating income increased 15.2% (a 26% increase on a local currency basis) compared with the previous fiscal year.

In the Electronics segment, the operating loss increased mainly due to a continued deterioration in the cost of sales ratio associated with a decline in unit selling prices. In the Game segment, as a result of a decline in hardware sales, there was a decrease in operating income. The Pictures segment had record operating income primarily due to the substantial contribution from *Spider-Man 2*.

Restructuring charges, which are recorded as operating expenses, amounted to ¥90.0 billion (\$841.1 million) for the fiscal year compared to ¥168.1 billion in the previous fiscal year. In the Electronics segment, restructuring charges were ¥81.8 billion (\$764.5 million) compared to ¥145.4 billion in the previous fiscal year.

Income before income taxes increased 9.1% compared to the previous fiscal year. There was a deterioration in the net effect of other income and expenses compared to the previous fiscal year despite an improvement due to a smaller loss on the devaluation of securities investments compared to the previous year, and gains of ¥9.0 billion (\$84 million) from a change in interest from Monex Inc., an equity affiliate of Sony, following its business integration by way of a share transfer with Nikko Beans, Inc., and total gains of ¥4.7 billion (\$44 million) from the sale of stock and a

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change in interest in a subsidiary resulting from the initial public offering of So-net M3 Inc., a consolidated subsidiary of Sony Communication Network Corporation. This deterioration was mainly the result of the recording of a net foreign exchange loss in the current fiscal year, compared to the net foreign exchange gain recorded in the previous fiscal year.

Income taxes: Compared to an effective tax rate of 36.6% in the previous fiscal year, the effective tax rate was 10.2% in the current fiscal year. As fully discussed in Sony's Annual Report on Form 20-F for the fiscal year ended March 31, 2004, 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 and certain state taxes. However, in the current fiscal year, based on both an improvement in recent years and a sound outlook for the operating performance at Sony's U.S. subsidiaries, Sony reversed ¥67.9 billion (\$635 million) of such valuation allowances, resulting in a reduction to income tax expense. This reversal was the major factor impacting the effective tax rate decline for the fiscal year.

Equity in net income of affiliated companies increased ¥27.3 billion compared to the previous fiscal year. Sony Ericsson Mobile Communications AB (Sony Ericsson) contributed ¥17.4 billion (\$163 million) to equity in net income, an increase of ¥11.0 billion compared to the previous fiscal year. Equity in net income of affiliated companies for the current fiscal year includes the recording of ¥12.6 billion (\$118 million) as equity in net income from InterTrust Technologies Corporation (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, an equity loss of ¥3.4 billion (\$32 million) was recorded at Sony BMG, established in August 2004. 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 Corporation, a joint-venture with Samsung Electronics Co., Ltd. for the manufacture of amorphous TFT LCD panels. (For operating results of major affiliates accounted for by the equity method, please refer to page 9.)

Net income, as a result, increased 85.1% compared to the previous fiscal year.

Table of Contents**Operating Performance Highlights by Business Segment**

Note: 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% 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% 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, have been reclassified to the Electronics segment to reflect the new management reporting structure whereby Sony's Electronics segment has now assumed responsibility for these businesses. Results for the previous fiscal year in the Electronics and Music segments have been restated to account for this reclassification.

In the Music segment, results for this fiscal year only include the results of Sony Music Entertainment Inc. (SMEI) recorded music business for the months of April through July 2004, and the twelve months results of SMEI's music publishing business and SMEJ. However, results for the previous fiscal year in the Music segment 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.

Electronics

Year ended March 31

	Yen in billions		Percent change	Dollars in millions
	2004	2005	2005/2004	2005
Sales and operating revenue	¥ 5,042.3	¥ 5,021.6	-0.4%	\$ 46,931
Operating loss	(6.8)	(34.3)		(321)

Unless otherwise specified, all amounts are on a U.S. GAAP basis.

Sales remained largely unchanged (a 1% increase on a local currency basis). Sales to outside customers decreased 1.1% compared to 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 portable audio, faced with a difficult competitive environment due to the shift towards hard disc- and flash-based memory players. However, there was an increase in sales of several products including flat panel televisions, which saw increased sales in all geographic areas, digital still cameras, where sales increased outside of Japan, and LCD rear projection televisions, which saw increased unit sales particularly in the U.S.

Operating loss increased by ¥27.5 billion compared with the previous fiscal year. Although there was a decrease in restructuring charges compared with the previous fiscal year, operating loss increased due to a significant deterioration in the cost of sales ratio as a result of a decline in unit selling prices. With regard to products within the Electronics segment, the decrease in sales of CRT televisions and portable audio, as well as the decline of unit selling prices of camcorders, contributed to the increase in operating loss.

Inventory, as of March 31, 2005, was ¥514.4 billion (\$4,807 million), a ¥18.4 billion, or 3.7%, increase compared with the level as of March 31, 2004 and a ¥56.5 billion, or 9.9%, decrease compared with the level as of December 31, 2004.

Note: In association with the completion of business integration of Sony Group's semiconductor manufacturing businesses in July 2004, it was decided to account for semiconductor manufacturing operations inventory, which was previously recorded in the Game segment, within the Electronics segment as of the quarter beginning July 1, 2004. (Regarding the integration of Sony Group's semiconductor manufacturing operations, please refer to note 25 on page 95.)

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<i>Game</i>	Year ended March 31			
	Yen in billions		Percent change	Dollars in millions
	2004	2005	2005/2004	2005
Sales and operating revenue	¥ 780.2	¥ 729.8	-6.5%	\$ 6,821
Operating income	67.6	43.2	-36.1	404

Unless otherwise specified, all amounts are on a U.S. GAAP basis.

Sales decreased 6.5% compared with the previous fiscal year (a 6% decrease on a local currency basis).

Hardware: In addition to a decline of PlayStation 2 (PS2) unit sales in Japan, the U.S. and Europe, strategic price reductions on the PS2 undertaken in each of the abovementioned territories resulted in a decline in sales.

Software: Overall software sales increased mainly as a result of an increase in unit sales of PS2 software, which recorded all-time record sales. Revenue increased in Japan, the U.S. and Europe.

PlayStation Portable, on sale in Japan from December 2004 and in the U.S. from March 2005, has recorded strong hardware and software unit sales.

Operating income decreased by ¥24.4 billion, or 36.1%, compared with the previous fiscal year as a result mainly of a decrease in hardware sales coupled with the start-up expenses for PlayStation Portable, despite being partially offset by an increase in software sales.

Worldwide hardware production shipments*:

® PS2:	16.17 million units (a decrease of 3.93 million units)
® PS one:	2.77 million units (a decrease of 0.54 million units)
® PlayStation Portable	2.97 million units

Worldwide software production shipments*:

® PS2:	252 million units (an increase of 30 million units)
® PlayStation:	10 million units (a decrease of 22 million units)
® PlayStation Portable	5.7 million units

**Production shipment units 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.*

Inventory as of March 31, 2005, was ¥77.5 billion (\$724 million), a ¥53.4 billion, or 40.8%, decrease compared with the level as of March 31, 2004 and a ¥32.1 billion, or 70.7%, increase compared with the level as of December 31,

2004. (Regarding inventory, please refer to the note in the above Electronics segment.)

Table of Contents**Music**

Year ended March 31

	Yen in billions		Percent change 2005/2004	Dollars in millions 2005
	2004	2005		
Sales and operating revenue	¥ 440.3	¥ 249.1	-43.4%	\$ 2,328
Operating income (loss)	(6.0)	8.8		82

The amounts presented above are the sum of the yen-translated results of SMEI, a U.S. -based operation which aggregates the results of its worldwide subsidiaries on a U.S. dollar basis, and the results of SMEJ, a Japan-based operation which aggregates results in yen. In addition, please refer to the note on page 5 regarding the establishment of Sony BMG.

Sales decreased ¥191.2 billion or 43.4% compared with the previous fiscal year. Of the Music segment's sales, 62% were generated by SMEJ and 38% were generated by SMEI. As noted above, due to the establishment of the Sony BMG joint venture, there were no recorded music sales at SMEI after July 31, 2004. Therefore, SMEI's results are not comparable with results of the prior year.

SMEJ: Sales increased 6.9% compared with the previous fiscal year mainly due to an increase in album and single sales. Best-selling albums and singles during the year included *musiQ* by ORANGE RANGE, *SENTIMENTALovers* by Ken Hirai and *PORNO GRAFFITTI BEST BLUE* by Porno Graffitti.

Operating income at SMEJ increased significantly compared to the previous fiscal year due to the higher sales noted above and an improvement in the cost of sales ratio. As noted above, SMEI's results are not comparable with the results in the prior year.

Pictures

Year ended March 31

	Yen in billions		Percent change 2005/2004	Dollars in millions 2005
	2004	2005		
Sales and operating revenue	¥ 756.4	¥ 733.7	-3.0%	\$ 6,857
Operating income	35.2	63.9	+81.4	597

The results presented above are a yen-translation of the results of Sony Pictures Entertainment (SPE), a U.S.-based operation which aggregates the results of its worldwide subsidiaries on a U.S. dollar basis. Management analyzes the results of SPE in U.S. dollars, so discussions of certain portions of its results are specified as being on a U.S. dollar basis.

Sales decreased 3.0% compared with the previous fiscal year (1% increase on a U.S. dollar basis) due to the appreciation of the yen. Sales, on a U.S. dollar basis, 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 prior year films 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 year. The higher sales from films were partially offset by a decrease in television sales due to the absence in the current year of several transactions 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 current year benefited from the highly successful DVD release of *Seinfeld*.

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Operating income increased ¥28.7 billion to ¥63.9 billion (\$597 million), compared with the previous fiscal year. This represented record operating income for SPE. The large increase in operating income is due to the strong overall performance of the current year film slate and the home entertainment and international television syndication carryover performance of the prior year films noted above. *Spider-Man 2*'s worldwide success contributed substantially to this year's earnings offset somewhat by the disappointing theatrical performance of *Spanglish*. Television's operating income decreased due to the same factors noted above for revenue.

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 in cash per MGM share, for a total purchase price of approximately \$5.0 billion. As part of this transaction, SPE will co-finance and produce new motion pictures with MGM as well as distribute MGM's existing film and television content through SPE's global distribution channels. MGM will continue 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 for 20% of the total equity capital. However, based on the percentage of common stock owned, Sony will record 45% of MGM's net income (loss) as equity in net income of affiliated companies.

Financial Services

Year ended March 31

	Yen in billions		Percent change	Dollars in millions
	2004	2005	2005/2004	2005
Financial Services revenue	¥ 593.5	¥ 560.6	-5.6%	\$ 5,238
Operating income	55.2	55.5	+0.6	519

Unless otherwise specified, all amounts are on a U.S. GAAP basis. Therefore, they differ from the results that Sony Life discloses on a Japanese statutory basis.

Financial Services revenue decreased 5.6% compared with the previous fiscal year, mainly due to a decrease in revenue at Sony Life. Revenue at Sony Life was ¥474.3 billion (\$4,433 million), a ¥38.7 billion, or 7.5% decrease compared with the previous fiscal year. The main reasons for this decrease 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 year in which significant valuation gains were recorded against stock conversion rights from convertible bonds.

Operating income increased by ¥0.3 billion or 0.6% compared with the previous fiscal year, as a result of the recording of losses in the previous fiscal year by Sony Finance International Inc., associated with reorganization proceedings instituted by Crosswave Communications Inc. under the Corporate Reorganization Law of Japan during the same year. Operating income at Sony Life decreased by ¥2.2 billion or 3.4% to ¥61.0 billion (\$570 million), 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.

Table of Contents**Other**

Year ended March 31

	Yen in billions		Percent change	Dollars in millions
	2004	2005	2005/2004	2005
Sales and operating revenue	¥ 268.3	¥ 254.4	-5.2%	\$ 2,378
Operating loss	(12.1)	(4.1)		(38)

Unless otherwise specified, all amounts are on a U.S. GAAP basis.

Sales decreased 5.2% compared with the previous fiscal year. This was primarily the result of a decrease in intersegment sales due to contract changes at a Japanese subsidiary involved in the advertising agency business.

An operating loss of ¥4.1 billion (\$38 million) was recorded, representing an improvement of ¥8.0 billion compared with the operating loss of ¥12.1 billion recorded in the previous fiscal year. This improvement was mainly due to a reduction of fixed costs, a gain from the sale of a retail and showroom building in Japan and the strong performance of a business engaged in the production and marketing of animation products during the current fiscal year, although this was partially offset by the recording of a one-time gain of ¥7.7 billion by 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.

Operating Results for Major Affiliates Accounted for by the Equity Method

The following operating results for significant companies accounted for by the equity method are not consolidated in Sony's consolidated financial statements. However, Sony believes that this disclosure provides additional useful analytical information to investors regarding operating performance. In addition, please note that the operating results of Sony Ericsson discussed below are reported on an International Financial Reporting Standards basis, and thereby differ from the operating results reported on a U.S. GAAP basis contained within Sony's equity in net income of affiliated companies. Furthermore, as Sony Ericsson and Sony BMG report their results on a calendar year basis, the operating results presented below have been adjusted according to Sony's fiscal year.

Sony Ericsson recorded sales for the one year period ended March 31, 2005 of Euro 6,475 million, representing a Euro 1,269 million or 24% increase compared to the same period of the previous year. Income before taxes was Euro 460 million, a Euro 380 million increase compared to the same period of the previous year, and net income of Euro 267 million was recorded, a Euro 167 million increase compared to the same period of the previous year. Sony Ericsson experienced a strong year led by consumer demand for mid and high-end GSM models. As a result, equity in net income of ¥17.4 billion (\$163 million) was recorded by Sony.

Sony BMG recorded sales revenue of \$3,258 million, loss before income taxes of \$53 million, and a net loss of \$66 million during the period that the venture began operations on August 1, 2004 through the end of Sony's fiscal year. Loss before income taxes includes \$290 million of restructuring charges. As a result, equity in net loss of ¥3.4 billion (\$32 million) was recorded by Sony.

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The following charts show Sony's unaudited condensed statements of cash flows on a consolidated basis for all segments excluding the Financial Services segment and for the Financial Services segment alone. These separate condensed 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 these presentations may be useful in understanding and analyzing Sony's consolidated financial statements.

n Cash Flow Consolidated (excluding Financial Services segment)

Year ended March 31

Cash flow	Yen in billions		Change 2005/2004	Dollars in millions
	2004	2005		2005
- From operating activities	¥ 401.1	¥ 485.4	¥ +84.3	\$ 4,537
- From investing activities	(352.5)	(472.1)	-119.6	(4,412)
- From financing activities	153.8	(95.4)	-249.1	(892)
Cash and cash equivalents at beginning of the fiscal year	438.5	592.9	+154.4	5,541
Cash and cash equivalents at end of the fiscal year	592.9	519.7	-73.2	4,857

Operating Activities: During the fiscal year ended March 31, 2005, although there was an increase in notes and accounts receivable, trade mainly within the Game segment, in addition to the recording of net income, excluding depreciation and amortization primarily within the Pictures and Game segments, there was a decrease in inventory within the Electronics and Game segments and an increase in notes and accounts payable, trade, within the Game segment.

Investing Activities: During the fiscal year ended March 31, 2005, Sony made significant capital investments in semiconductors, particularly the advanced microprocessor Cell, as well as investments associated with the amorphous TFT LCD panel manufacturing joint venture (S-LCD Corporation) established with Samsung Electronics Co., Ltd.

As a result, cash flow from operating activities exceeded cash flow from investing activities by ¥13.3 billion (\$125 million).

Financing Activities: During the fiscal year ended March 31, 2005, Sony redeemed a portion of its long-term debt. In addition, of the ¥300.0 billion of convertible bonds due on March 31, 2005, ¥5.0 billion were redeemed on the maturity date with the remainder being converted into common stock.

Cash and Cash Equivalents: The total balance of cash and cash equivalents, accounting for the effect of foreign currency exchange rate fluctuations, was ¥519.7 billion (\$4,857 million) as of March 31, 2005, a decrease of ¥73.2 billion compared to March 31, 2004.

Table of Contentsn Cash Flow Financial Services segment

Year ended March 31

Cash flow	Yen in billions		Change 2005/2004	Dollars in millions	
	2004	2005		2005	
- From operating activities	¥ 241.6	¥ 168.1	¥ -73.5	\$	1,571
- From investing activities	(401.6)	(421.4)	-19.8		(3,938)
- From financing activities	141.7	256.4	+114.7		2,396
Cash and cash equivalents at beginning of the fiscal year	274.5	256.3	-18.2		2,395
Cash and cash equivalents at end of the fiscal year	256.3	259.4	+3.1		2,424

Operating Activities: The cash inflows from insurance premiums and other exceeded the related cash outflows, reflecting primarily an increase in insurance-in-force at Sony Life.

Investing Activities: 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 both investments in mainly Japanese fixed income securities resulting from an increase in insurance-in-force at Sony Life, and a housing loan campaign carried out at Sony Bank.

Financing Activities: In addition to the increase in policyholders' accounts at Sony Life, deposits from customers in the banking business increased primarily due to an increase in the number of accounts.

Cash and Cash Equivalents: As a result of the above, the balance of cash and cash equivalents was ¥259.4 billion (\$2,424 million) as of March 31, 2005, which was an increase of ¥3.1 billion compared to March 31, 2004.

Notes

Note I: During the fiscal year ended March 31, 2005, the average value of the yen was ¥106.5 against the U.S. dollar and ¥133.7 against the Euro, which was 5.2% higher against the U.S. dollar and 1.9% lower against the Euro, compared with the average rates for the previous fiscal year. Operating results on a local currency basis described herein reflect sales and operating income obtained by applying the yen's 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 fiscal year. Local currency basis results are not reflected in Sony's financial statements and are not measures conforming 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 analytical information to investors regarding operating performance.

Note II: Sales and operating revenue in each business segment represents sales and operating revenue recorded before intersegment transactions are eliminated. Operating income in each business segment represents operating income recorded before intersegment transactions and unallocated corporate expenses are eliminated.

Note III:

In the third quarter ended December 31, 2004, Sony adopted Emerging Issues Task Force (EITF) Issue No. 04-8, The Effect of Contingently Convertible Instruments on Diluted Earnings per Share. As a result of adopting EITF Issue No. 04-8, diluted earnings per share of net income for the fiscal year ended March 31, 2004 have been restated (see Note 2 on page 31 regarding EITF Issue No. 04-8).

Table of Contents**Business Segment Information**

Year ended March 31

	Yen in millions		Percent change 2005/2004	Dollars in millions 2005
	2004	2005		
Sales and operating revenue:				
Electronics				
Customers	¥ 4,838,268	¥ 4,786,236	-1.1%	\$ 44,731
Intersegment	204,051	235,411		2,200
Total	5,042,319	5,021,647	-0.4	46,931
Game				
Customers	753,732	702,524	-6.8	6,566
Intersegment	26,488	27,230		255
Total	780,220	729,754	-6.5	6,821
Music				
Customers	409,487	216,779	-47.1	2,026
Intersegment	30,819	32,326		302
Total	440,306	249,105	-43.4	2,328
Pictures				
Customers	756,370	733,677	-3.0	6,857
Intersegment	0	0		0
Total	756,370	733,677	-3.0	6,857
Financial Services				
Customers	565,752	537,715	-5.0	5,025
Intersegment	27,792	22,842		213
Total	593,544	560,557	-5.6	5,238
Other				
Customers	172,782	182,685	+5.7	1,707
Intersegment	95,535	71,742		671
Total	268,317	254,427	-5.2	2,378
Elimination	(384,685)	(389,551)		(3,641)
Consolidated total	¥ 7,496,391	¥ 7,159,616	-4.5%	\$ 66,912

Electronics intersegment amounts primarily consist of transactions with the Game and Pictures segments.

Game intersegment amounts primarily consist of transactions with the Electronics segment.

Music intersegment amounts primarily consist of transactions with the Game segment.

Other intersegment amounts primarily consist of transactions with the Electronics segment.

Year ended March 31

	Yen in millions		Percent change 2005/2004	Dollars in millions
	2004	2005		2005
Operating income (loss):				
Electronics	¥ (6,824)	¥ (34,305)		\$ (321)
Game	67,578	43,170	-36.1%	404
Music	(5,997)	8,783		82
Pictures	35,230	63,899	+81.4	597
Financial Services	55,161	55,490	+0.6	519
Other	(12,054)	(4,077)		(38)
Total	133,094	132,960	-0.1	1,243
Unallocated corporate expenses and elimination	(34,192)	(19,041)		(178)
Consolidated total	¥ 98,902	¥ 113,919	+15.2%	\$ 1,065

Commencing April 1, 2004, Sony has partly realigned its business segment configuration. Results of the previous year have been reclassified to conform to the presentations for the current year (See Notes 25 on page 95).

Table of Contents**Electronics Sales and Operating Revenue to Customers by Product Category**

Year ended March 31

	Yen in millions		Percent change 2005/2004	Dollars in millions 2005
	2004	2005		
Sales and operating revenue:				
Audio	¥ 675,496	¥ 571,864	-15.3%	\$ 5,345
Video	949,261	1,034,736	+9.0	9,670
Televisions	925,501	957,122	+3.4	8,945
Information and Communications	834,757	778,374	-6.8	7,275
Semiconductors	253,237	246,314	-2.7	2,302
Components	623,799	619,477	-0.7	5,789
Other	576,217	578,349	+0.4	5,405
Total	¥4,838,268	¥4,786,236	-1.1%	\$ 44,731

The above table is a breakdown of Electronics sales and operating revenue to customers in the Business Segment Information on page 12. The Electronics segment is managed as a single operating segment by Sony's management. However, Sony believes that the information in this table is useful to investors in understanding the product categories in this business segment. In addition, commencing April 1, 2004, Sony has partly realigned its product category configuration in the Electronics segment. Accordingly, results of the previous year have been restated. (See Note 25 on page 95)

Geographic Segment Information

Year ended March 31

	Yen in millions		Percent change 2005/2004	Dollars in millions 2005
	2004	2005		
Sales and operating revenue:				
Japan	¥ 2,220,747	¥2,100,793	-5.4%	\$ 19,634
United States	2,121,110	1,977,310	-6.8	18,479
Europe	1,765,053	1,612,536	-8.6	15,070
Other Areas	1,389,481	1,468,977	+5.7	13,729
Total	¥7,496,391	¥7,159,616	-4.5%	\$ 66,912

Classification of Geographic Segment Information shows sales and operating revenue recognized by location of customers.

Table of Contents***Condensed Financial Services Financial Statements (Unaudited)***

The results of the Financial Services segment are included in Sony's consolidated financial statements. The following schedules show unaudited condensed financial statements for the Financial Services segment and all other segments excluding Financial Services. 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 Sony without Financial Services are eliminated in the consolidated figures shown below.

n Condensed statements of income

Financial Services

Year ended March 31	Yen in millions		Percent change 2005/2004	Dollars in millions 2005
	2004	2005		
Financial service revenue	¥ 593,544	¥ 560,557	-5.6%	\$ 5,238
Financial service expenses	538,383	505,067	-6.2	4,719
Operating income	55,161	55,490	+0.6	519
Other income (expenses), net	1,958	10,204	+421.1	95
Income before income taxes	57,119	65,694	+15.0	614
Income taxes and other	22,975	25,698	+11.9	240
Income before cumulative effect of an accounting change	34,144	39,996	+17.1	374
Cumulative effect of an accounting change		(4,713)		(44)
Net income	¥ 34,144	¥ 35,283	+3.3%	\$ 330

Sony without Financial Services

Year ended March 31	Yen in millions		Percent change 2005/2004	Dollars in millions 2005
	2004	2005		
Net sales and operating revenue	¥ 6,939,964	¥ 6,632,728	-4.4%	\$ 61,988
Costs and expenses	6,896,377	6,575,354	-4.7	61,452
Operating income	43,587	57,374	+31.6	536

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Other income (expenses), net	52,746	40,639	-23.0	380
Income before income taxes	96,333	98,013	+1.7	916
Income taxes and other	30,916	(37,043)		(346)
Income before cumulative effect of an accounting change	65,417	135,056	+106.5	1,262
Cumulative effect of an accounting change	(2,117)			
Net income	¥ 63,300	¥ 135,056	+113.4%	\$ 1,262

Consolidated

Year ended March 31	Yen in millions		Percent change 2005/2004	Dollars in millions 2005
	2004	2005		
Financial service revenue	¥ 565,752	¥ 537,715	-5.0%	\$ 5,025
Net sales and operating revenue	6,930,639	6,621,901	-4.5	61,887
	7,496,391	7,159,616	-4.5	66,912
Costs and expenses	7,397,489	7,045,697	-4.8	65,847
Operating income	98,902	113,919	+15.2	1,065
Other income (expenses), net	45,165	43,288	-4.2	404
Income before income taxes	144,067	157,207	+9.1	1,469
Income taxes and other	53,439	(11,344)		(106)
Income before cumulative effect of an accounting change	90,628	168,551	+86.0	1,575
Cumulative effect of an accounting change	(2,117)	(4,713)		(44)
Net income	¥ 88,511	¥ 163,838	+85.1%	\$ 1,531

Table of Contentsn Condensed balance sheets

Financial Services

March 31	Yen in millions		Dollars in millions
	2004	2005	2005
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 256,316	¥ 259,371	\$ 2,424
Marketable securities	270,676	456,130	4,263
Notes and accounts receivable, trade	72,273	77,023	720
Other	100,433	197,667	1,847
	699,698	990,191	9,254
Investments and advances	2,274,510	2,378,966	22,233
Property, plant and equipment	40,833	38,551	360
Other assets:			
Deferred insurance acquisition costs	349,194	374,805	3,503
Other	110,804	103,004	963
	459,998	477,809	4,466
	¥ 3,475,039	¥ 3,885,517	\$ 36,313
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities:			
Short-term borrowings	¥ 86,748	¥ 45,358	\$ 424
Notes and accounts payable, trade	7,847	7,099	66
Deposits from customers in the banking business	378,851	546,718	5,110
Other	175,357	109,438	1,023
	648,803	708,613	6,623
Long-term liabilities:			
Long-term debt	135,811	135,750	1,269
Accrued pension and severance costs	10,183	14,362	134
Future insurance policy benefits and other	2,178,626	2,464,295	23,031
Other	126,349	142,272	1,329
	2,450,969	2,756,679	25,763
Minority interest in consolidated subsidiaries		5,476	51
Stockholders equity	375,267	414,749	3,876
	¥ 3,475,039	¥ 3,885,517	\$ 36,313

Sony without Financial Services

March 31	Yen in millions		Dollars in millions
	2004	2005	2005
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 592,895	¥ 519,732	\$ 4,857
Marketable securities	4,072	4,072	38
Notes and accounts receivable, trade	943,590	952,692	8,904
Other	1,151,879	1,116,353	10,433
	2,692,436	2,592,849	24,232
Film costs	256,740	278,961	2,607
Investments and advances	358,629	445,446	4,163
Investments in Financial Services, at cost	176,905	187,400	1,751
Property, plant and equipment	1,324,211	1,333,848	12,466
Other assets	1,251,901	1,189,398	11,117
	¥ 6,060,822	¥ 6,027,902	\$ 56,336
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities:			
Short-term borrowings	¥ 409,766	¥ 204,027	\$ 1,907
Notes and accounts payable, trade	773,221	801,252	7,488
Other	1,190,563	1,132,201	10,581
	2,373,550	2,137,480	19,976
Long-term liabilities:			
Long-term debt	775,233	627,367	5,863
Accrued pension and severance costs	358,199	338,040	3,159
Other	348,946	263,520	2,464
	1,482,378	1,228,927	11,486
Minority interest in consolidated subsidiaries	17,554	18,471	173
Stockholders equity	2,187,340	2,643,024	24,701
	¥ 6,060,822	¥ 6,027,902	\$ 56,336

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Consolidated

March 31	Yen in millions		Dollars in millions
	2004	2005	2005
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 849,211	¥ 779,103	\$ 7,281
Marketable securities	274,748	460,202	4,301
Notes and accounts receivable, trade	1,011,189	1,025,362	9,583
Other	1,228,207	1,291,504	12,070
	3,363,355	3,556,171	33,235
Film costs	256,740	278,961	2,607
Investments and advances	2,512,950	2,745,689	25,661
Property, plant and equipment	1,365,044	1,372,399	12,826
Other assets:			
Deferred insurance acquisition costs	349,194	374,805	3,503
Other	1,243,379	1,171,075	10,945
	1,592,573	1,545,880	14,448
	¥ 9,090,662	¥ 9,499,100	\$ 88,777
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities:			
Short-term borrowings	¥ 475,017	¥ 230,266	\$ 2,152
Notes and accounts payable, trade	778,773	806,044	7,533
Deposits from customers in the banking business	378,851	546,718	5,110
Other	1,349,574	1,226,340	11,461
	2,982,215	2,809,368	26,256
Long-term liabilities:			
Long-term debt	777,649	678,992	6,346
Accrued pension and severance costs	368,382	352,402	3,293
Future insurance policy benefits and other	2,178,626	2,464,295	23,031
Other	382,930	299,858	2,802
	3,707,587	3,795,547	35,472
Minority interest in consolidated subsidiaries	22,858	23,847	223
Stockholders equity	2,378,002	2,870,338	26,826
	¥ 9,090,662	¥ 9,499,100	\$ 88,777

n Condensed statements of cash flows

Financial Services

Year ended March 31	Yen in millions		Dollars in millions
	2004	2005	2005
Net cash provided by operating activities	¥ 241,627	¥ 168,078	\$ 1,571
Net cash used in investing activities	(401,550)	(421,384)	(3,938)
Net cash provided by financing activities	141,696	256,361	2,396
Net increase (decrease) in cash and cash equivalents	(18,227)	3,055	29
Cash and cash equivalents at beginning of the fiscal year	274,543	256,316	2,395
Cash and cash equivalents at end of the fiscal year	¥ 256,316	¥ 259,371	\$ 2,424

Sony without Financial Services

Year ended March 31	Yen in millions		Dollars in millions
	2004	2005	2005
Net cash provided by operating activities	¥ 401,090	¥ 485,439	\$ 4,537
Net cash used in investing activities	(352,496)	(472,119)	(4,412)
Net cash provided by (used in) financing activities	153,759	(95,373)	(892)
Effect of exchange rate changes on cash and cash equivalents	(47,973)	8,890	83
Net increase (decrease) in cash and cash equivalents	154,380	(73,163)	(684)
Cash and cash equivalents at beginning of the fiscal year	438,515	592,895	5,541
Cash and cash equivalents at end of the fiscal year	¥ 592,895	¥ 519,732	\$ 4,857

Consolidated

Year ended March 31	Yen in millions		Dollars in millions
	2004	2005	2005
Net cash provided by operating activities	¥ 632,635	¥ 646,997	\$ 6,047
Net cash used in investing activities	(761,792)	(931,172)	(8,703)
Net cash provided by financing activities	313,283	205,177	1,918
Effect of exchange rate changes on cash and cash equivalents	(47,973)	8,890	83
Net increase (decrease) in cash and cash equivalents	136,153	(70,108)	(655)
Cash and cash equivalents at beginning of the fiscal year	713,058	849,211	7,936

Cash and cash equivalents at end of the fiscal year	¥ 849,211	¥ 779,103	\$	7,281
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Five-Year Summary of Selected Financial Data

Sony Corporation and Consolidated Subsidiaries - Year ended March 31

	Yen in millions					Dollars in millions except per share amounts
	except per share amounts					2005
	2001	2002	2003	2004	2005	2005
FOR THE YEAR						
Sales and operating revenue	¥7,314,824	¥7,578,258	¥7,473,633	¥7,496,391	¥7,159,616	\$ 66,912
Operating income	225,346	134,631	185,440	98,902	113,919	1,065
Income before income taxes	265,868	92,775	247,621	144,067	157,207	1,469
Income taxes	115,534	65,211	80,831	52,774	16,044	150
Income before cumulative effect of accounting changes	121,227	9,332	115,519	90,628	168,551	1,575
Net income	16,754	15,310	115,519	88,511	163,838	1,531
Per share data:						
Common stock						
Income before cumulative effect of accounting changes						
Basic	¥ 132.64	¥ 10.21	¥ 125.74	¥ 98.26	¥ 180.96	\$ 1.69
Diluted	124.36	10.18	118.21	89.03	162.59	1.52
Net income						
Basic	18.33	16.72	125.74	95.97	175.90	1.64
Diluted	19.28	16.67	118.21	87.00	158.07	1.48
Cash dividends	25.00	25.00	25.00	25.00	25.00	0.23
Subsidiary tracking stock						
Net income (loss)						
Basic		(15.87)	(41.98)	(41.80)	17.21	0.16
Cash dividends						
Depreciation and amortization*						
	¥ 348,268	¥ 354,135	¥ 351,925	¥ 366,269	¥ 372,865	\$ 3,485
Capital expenditures (additions to property, plant and equipment)						
	465,209	326,734	261,241	378,264	356,818	3,335
Research and development expenses						
	416,708	433,214	443,128	514,483	502,008	4,692
AT YEAR-END						
Net working capital	¥ 830,734	¥ 778,716	¥ 719,166	¥ 381,140	746,803	6,979
Stockholders' equity	2,315,453	2,370,410	2,280,895	2,378,002	2,870,338	26,826
Stockholders' equity per share attributable to	¥ 2,521.19	¥ 2,570.31	¥ 2,466.81	¥ 2,563.67	¥ 2,872.21	\$ 26.84

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common stock						
Total assets	¥ 7,827,966	¥ 8,185,795	¥ 8,370,545	¥ 9,090,662	¥ 9,499,100	\$ 88,777
Number of shares issued at year-end (thousands of shares)						
Common stock	919,617	919,744	922,385	923,950	996,092	
Subsidiary tracking stock		3,072	3,072	3,072	3,072	

* Including amortization expenses for intangible assets and for deferred insurance acquisition costs

- Notes:
1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥107 = U.S. \$1, the approximate Tokyo foreign exchange market rate as of March 31, 2005.
 2. In July 2003, AcSEC 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 (\$48 million) for the year ended March 31, 2005. Additionally, on April 1, 2004, Sony recognized ¥4,713 million (\$44 million) of loss (net of income taxes of ¥2,675 million) as a cumulative effect of an accounting change. In addition, the separate account assets, which are defined by insurance business law in Japan and were previously included in Securities investments and other on the consolidated balance sheet, were excluded from the category of separate accounts under the provision of SOP 03-1. Accordingly, the assets previously treated as separate account assets are now treated within general account assets.
 3. In July 2004, the EITF issued EITF Issue No. 04-8, The Effect of Contingently Convertible Instruments on Diluted Earnings per Share . In accordance with FAS No.128, Sony had not previously included in the computation of diluted earnings per share (EPS) the number of potential shares of common stock issuable upon the conversion of contingently convertible debt instruments (Co-Cos) that have not met the conditions to exercise associated the stock acquisition rights. EITF Issue No. 04-8 requires that the maximum number of shares 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 such 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 its net

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income for the year ended March 31, 2004 were restated respectively. Sony's diluted EPS of income before cumulative effect of an accounting change and its net income for the year ended March 31, 2005 were decreased by ¥7.26 (\$0.07) and ¥7.06 (\$0.07), respectively, compared to those before the adoption of EITF Issue No. 04-8.

4. *In January 2003, the FASB issued FIN No.46, Consolidation of Variable Interest Entities – an Interpretation of Accounting Research Bulletins (ARB) No.51 , and the revised FIN No.46 was issued in December 2003. This interpretation addresses consolidation by a primary beneficiary of a variable interest entity (VIE). Sony adopted FIN No.46 on July 1, 2003. As a result of the adoption of FIN No.46, Sony recognized ¥2,117 million of loss as the cumulative effect of an accounting change. Additionally, Sony's assets and liabilities increased by ¥96,776 million and ¥97,950 million, respectively, including cash and cash equivalents of ¥1,521 million.*
5. *On April 1, 2001, Sony adopted FAS No.133, Accounting for Derivative Instruments and Hedging Activities – as amended by FAS No.138, Accounting for Certain Derivative Instruments and Certain Hedging Activities – an Amendment of FASB Statement No.133 . As a result, Sony's operating income, income before income taxes and net income for the year ended March 31, 2002 decreased by ¥3,007 million, ¥3,441 million and ¥2,167 million, respectively. Additionally, Sony recorded a one-time non-cash after-tax unrealized gain of ¥1,089 million in accumulated other comprehensive income in the consolidated balance sheet, as well as an after-tax gain of ¥5,978 million in the cumulative effect of accounting changes in the consolidated statement of income. In April 2003, the FASB issued FAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities . Sony adopted FAS No. 149 on July 1, 2003. The adoption of FAS No. 149 did not have an impact on Sony's results of operations and financial position.*
6. *In July 2001, the FASB issued FAS No. 142, Goodwill and Other Intangible Assets . Sony adopted FAS No. 142 retroactive to April 1, 2001. As a result, Sony's operating income and income before income taxes for the year ended March 31, 2002 increased by ¥20,114 million and income before cumulative effect of accounting changes as well as net income for the year ended March 31, 2002 increased by ¥18,932 million.*

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Consolidated Balance Sheets

Sony Corporation and Consolidated Subsidiaries - March 31

	Yen in millions		Dollars in millions (Note 3)
	2004	2005	2005
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 849,211	¥ 779,103	\$ 7,281
Time deposits	4,662	1,492	14
Marketable securities (Notes 8 and 12)	274,748	460,202	4,301
Notes and accounts receivable, trade (Notes 6 and 7)	1,123,863	1,113,071	10,403
Allowance for doubtful accounts and sales returns	(112,674)	(87,709)	(820)
Inventories (Note 4)	666,507	631,349	5,900
Deferred income taxes (Note 21)	125,532	141,154	1,319
Prepaid expenses and other current assets	431,506	517,509	4,837
Total current assets	3,363,355	3,556,171	33,235
Film costs (Note 5)	256,740	278,961	2,607
Investments and advances:			
Affiliated companies (Note 6)	86,253	252,905	2,364
Securities investments and other (Notes 8, 11 and 12)	2,426,697	2,492,784	23,297
	2,512,950	2,745,689	25,661
Property, plant and equipment (Notes 9 and 12):			
Land	189,785	182,900	1,709
Buildings	930,983	925,796	8,652
Machinery and equipment	2,053,085	2,192,038	20,486
Construction in progress	98,480	92,611	866
	3,272,333	3,393,345	31,713
Less Accumulated depreciation	1,907,289	2,020,946	18,887
	1,365,044	1,372,399	12,826
Other assets:			
Intangibles, net (Notes 10 and 15)	248,010	187,024	1,748
Goodwill (Note 10)	277,870	283,923	2,653

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Deferred insurance acquisition costs (Note 11)	349,194	374,805		3,503
Deferred income taxes (Note 21)	203,203	240,396		2,247
Other	514,296	459,732		4,297
	1,592,573	1,545,880		14,448
	¥ 9,090,662	¥ 9,499,100	\$	88,777

(Continued on following page.)

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	Yen in millions		Dollars in millions (Note 3)
	2004	2005	2005
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities:			
Short-term borrowings (Note 12)	¥ 91,260	¥ 63,396	\$ 592
Current portion of long-term debt (Notes 9, 12 and 14)	383,757	166,870	1,560
Notes and accounts payable, trade (Note 6)	778,773	806,044	7,533
Accounts payable, other and accrued expenses (Notes 5 and 15)	812,175	746,466	6,976
Accrued income and other taxes	57,913	55,651	520
Deposits from customers in the banking business (Note 13)	378,851	546,718	5,110
Other (Notes 21 and 24)	479,486	424,223	3,965
Total current liabilities	2,982,215	2,809,368	26,256
Long-term liabilities:			
Long-term debt (Notes 9, 12 and 14)	777,649	678,992	6,346
Accrued pension and severance costs (Note 15)	368,382	352,402	3,293
Deferred income taxes (Note 21)	96,193	72,227	675
Future insurance policy benefits and other (Note 11)	2,178,626	2,464,295	23,031
Other	286,737	227,631	2,127
	3,707,587	3,795,547	35,472
Minority interest in consolidated subsidiaries	22,858	23,847	223
Stockholders equity (Note 16):			
Subsidiary tracking stock, no par value			
Authorized 100,000,000 shares, outstanding 3,072,000 shares	3,917	3,917	36
Common stock, no par value			
2004 Authorized 3,500,000,000 shares, outstanding 926,418,280 shares	476,350		
2005 Authorized 3,500,000,000 shares, outstanding 997,211,213 shares		617,792	5,774
Additional paid-in capital	992,817	1,134,222	10,600
Retained earnings	1,367,060	1,506,082	14,076
Accumulated other comprehensive income			
Unrealized gains on securities (Note 8)	69,950	62,669	586
Unrealized losses on derivative instruments (Note 14)	(600)	(2,490)	(23)
Minimum pension liability adjustment (Note 15)	(89,261)	(90,030)	(841)

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Foreign currency translation adjustments	(430,048)	(355,824)	(3,326)
	(449,959)	(385,675)	(3,604)
Treasury stock, at cost			
Subsidiary tracking stock (2004 0 shares, 2005 32 shares)		(0)	(0)
Common stock (2004 2,468,258 shares, 2005 1,118,984 shares)	(12,183)	(6,000)	(56)
	2,378,002	2,870,338	26,826
Commitments and contingent liabilities (Notes 9 and 24)	¥9,090,662	¥9,499,100	\$ 88,777

The accompanying notes are an integral part of these statements.

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Consolidated Statements of Income

Sony Corporation and Consolidated Subsidiaries - Year ended March 31

	2003	Yen in millions 2004	2005	Dollars in millions (Note 3) 2005
Sales and operating revenue:				
Net sales (Note 6)	¥ 6,916,042	¥ 6,883,478	¥ 6,565,010	\$ 61,355
Financial service revenue	509,398	565,752	537,715	5,025
Other operating revenue	48,193	47,161	56,891	532
	7,473,633	7,496,391	7,159,616	66,912
Costs and expenses:				
Cost of sales (Notes 18 and 19)	4,979,421	5,058,205	5,000,112	46,730
Selling, general and administrative (Notes 17, 18 and 19)	1,782,367	1,798,239	1,535,015	14,346
Financial service expenses	486,464	505,550	482,576	4,510
Loss on sale, disposal or impairment of assets, net (Notes 10 and 18)	39,941	35,495	27,994	261
	7,288,193	7,397,489	7,045,697	65,847
Operating income	185,440	98,902	113,919	1,065
Other income:				
Interest and dividends (Note 6)	14,441	18,756	14,708	137
Royalty income	32,375	34,244	31,709	296
Foreign exchange gain, net	1,928	18,059		
Gain on sale of securities investments, net (Notes 6 and 8)	72,552	11,774	5,437	51
Gain on change in interest in subsidiaries and equity investees (Note 20)		4,870	16,322	153
Other	36,232	34,587	29,447	275
	157,528	122,290	97,623	912
Other expenses:				
Interest	27,314	27,849	24,578	230
Loss on devaluation of securities investments	23,198	16,481	3,715	35
Foreign exchange loss, net			524	5
Other	44,835	32,795	25,518	238
	95,347	77,125	54,335	508
Income before income taxes	247,621	144,067	157,207	1,469

Income taxes (Note 21):				
Current	178,847	87,219	85,510	799
Deferred	(98,016)	(34,445)	(69,466)	(649)
	80,831	52,774	16,044	150
Income before minority interest, equity in net income (loss) of affiliated companies and cumulative effect of an accounting change	166,790	91,293	141,163	1,319
Minority interest in income of consolidated subsidiaries	6,581	2,379	1,651	15
Equity in net income (loss) of affiliated companies (Note 6)	(44,690)	1,714	29,039	271
Income before cumulative effect of an accounting change	115,519	90,628	168,551	1,575
Cumulative effect of an accounting change (2004: Net of income taxes of ¥0 million 2005: Net of income taxes of ¥2,675 million) (Note 2)		(2,117)	(4,713)	(44)
Net income	¥ 115,519	¥ 88,511	¥ 163,838	\$ 1,531

(Continued on following page.)

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	2003	Yen 2004	2005	Dollars (Note 3) 2005
Per share data (Note 22):				
Common stock				
Income before cumulative effect of an accounting change				
Basic	¥ 125.74	¥ 98.26	¥ 180.96	\$ 1.69
Diluted	118.21	89.03	162.59	1.52
Cumulative effect of an accounting change				
Basic		(2.29)	(5.06)	(0.05)
Diluted		(2.03)	(4.52)	(0.04)
Net income				
Basic	125.74	95.97	175.90	1.64
Diluted	118.21	87.00	158.07	1.48
Cash dividends	25.00	25.00	25.00	0.23
Subsidiary tracking stock (Note 16)				
Net income (loss)				
Basic	(41.98)	(41.80)	17.21	0.16

The accompanying notes are an integral part of these statements.

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Consolidated Statements of Cash Flows

Sony Corporation and Consolidated Subsidiaries - Year ended March 31

	Yen in millions			Dollars in millions (Note 3)
	2003	2004	2005	2005
Cash flows from operating activities:				
Net income	¥ 115,519	¥ 88,511	¥ 163,838	\$ 1,531
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation and amortization, including amortization of deferred insurance acquisition costs	351,925	366,269	372,865	3,485
Amortization of film costs	312,054	305,786	276,320	2,582
Accrual for pension and severance costs, less payments	37,858	35,562	22,837	214
Loss on sale, disposal or impairment of assets, net (Notes 10 and 18)	39,941	35,495	27,994	261
Gain on sale or loss on devaluation of securities investments, net (Notes 6 and 8)	(49,354)	4,707	(1,722)	(16)
Gain on change in interest in subsidiaries and equity investees (Note 20)		(4,870)	(16,322)	(153)
Deferred income taxes (Note 21)	(98,016)	(34,445)	(69,466)	(649)
Equity in net (income) losses of affiliated companies, net of dividends	46,692	1,732	(15,648)	(146)
Cumulative effect of an accounting change (Note 2)		2,117	4,713	44
Changes in assets and liabilities:				
(Increase) decrease in notes and accounts receivable, trade	174,679	(63,010)	(22,056)	(206)
(Increase) decrease in inventories	36,039	(78,656)	34,128	319
Increase in film costs	(317,953)	(299,843)	(294,272)	(2,750)
Increase (decrease) in notes and accounts payable, trade	(58,384)	93,950	31,473	294
Increase (decrease) in accrued income and other taxes	14,637	(46,067)	3	0
Increase in future insurance policy benefits and other	233,992	264,216	144,143	1,347
Increase in deferred insurance acquisition costs	(66,091)	(71,219)	(65,051)	(608)
(Increase) decrease in marketable securities held in the financial service business for trading purpose		369	(28,524)	(266)
(Increase) decrease in other current assets	29,095	(34,991)	(29,699)	(278)
Increase in other current liabilities	26,205	44,772	46,545	435
Other	24,950	22,250	64,898	607
Net cash provided by operating activities	¥ 853,788	¥ 632,635	¥ 646,997	\$ 6,047

(Continued on following page.)

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	2003	Yen in millions 2004	2005	Dollars in millions (Note 3) 2005
Cash flows from investing activities:				
Payments for purchases of fixed assets	¥ (275,285)	¥ (427,344)	¥ (453,445)	\$ (4,238)
Proceeds from sales of fixed assets	25,711	33,987	34,184	319
Payments for investments and advances by financial service business	(1,012,508)	(1,167,945)	(1,309,092)	(12,235)
Payments for investments and advances (other than financial service business)	(123,839)	(33,329)	(158,151)	(1,478)
Proceeds from maturities of marketable securities, sales of securities investments and collections of advances by financial service business	529,395	791,188	923,593	8,632
Proceeds from maturities of marketable securities, sales of securities investments and collections of advances (other than financial service business)	148,977	35,521	25,849	242
Other	1,124	6,130	5,890	55
Net cash used in investing activities	(706,425)	(761,792)	(931,172)	(8,703)
Cash flows from financing activities:				
Proceeds from issuance of long-term debt	12,323	267,864	57,232	535
Payments of long-term debt	(238,144)	(32,042)	(94,862)	(887)
Increase (decrease) in short-term borrowings	(7,970)	(57,708)	11,397	107
Increase in deposits from customers in the financial service business (Note 13)	142,023	129,874	294,352	2,751
Increase (decrease) in call money and bills sold in the banking business (Note 12)	24,700	30,300	(40,400)	(377)
Dividends paid	(22,871)	(23,106)	(22,978)	(215)
Other	(3,195)	(1,899)	436	4
Net cash provided by (used in) financing activities	(93,134)	313,283	205,177	1,918
Effect of exchange rate changes on cash and cash equivalents	(24,971)	(47,973)	8,890	83
Net increase (decrease) in cash and cash equivalents	29,258	136,153	(70,108)	(655)
Cash and cash equivalents at beginning of the fiscal year	683,800	713,058	849,211	7,936
Cash and cash equivalents at end of the fiscal year	¥ 713,058	¥ 849,211	¥ 779,103	\$ 7,281

Supplemental data:

Cash paid during the year for

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Income taxes	¥	171,531	¥	114,781	¥	65,477	\$	612
Interest		22,216		22,571		18,187		170
Non-cash investing and financing activities								
Conversion of convertible bonds	¥	344	¥	7,977	¥	282,744	\$	2,641
Obtaining assets by entering into capital lease		9,034		18,298		19,049		178
Contribution of Net assets into the Joint Venture with Bertelsmann AG (Note 6)						9,402		88

The accompanying notes are an integral part of these statements..

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Consolidated Statements of Changes in Stockholders' Equity

Sony Corporation and Consolidated Subsidiaries - Year ended March 31

	Yen in millions						
	Subsidiary tracking stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Treasury stock, at cost	Total
Balance at March 31, 2002	¥ 3,917	¥ 472,189	¥ 968,223	¥ 1,209,262	¥ (275,593)	¥ (7,588)	¥ 2,370,410
Conversion of convertible bonds		172	172				344
Stock issued under exchange offering (Note 16)			15,791				15,791
Comprehensive income:							
Net income				115,519			115,519
Other comprehensive income, net of tax (Note 16)							
Unrealized gains on securities:							
Unrealized holding gains or losses arising during the period					(9,627)		(9,627)
Less: Reclassification adjustment for gains or losses included in net income					4,288		4,288
Unrealized losses on derivative instruments:							
Unrealized holding gains or losses arising during the period					(4,477)		(4,477)
Less: Reclassification adjustment for gains or losses included in net income					395		395
Minimum pension liability adjustment					(110,636)		(110,636)
Foreign currency translation adjustments:							
Translation adjustments arising during the period					(83,993)		(83,993)
					7,665		7,665

Less: Reclassification
adjustment for losses
included in net income

Total comprehensive
income

(80,866)

Stock issue costs, net of
tax

(19)

(19)

Dividends declared

(23,022)

(23,022)

Purchase of treasury
stock

(1,817)

(1,817)

Reissuance of treasury
stock

10

64

74

Balance at March 31,
2003

¥ 3,917

¥ 472,361

¥ 984,196

¥ 1,301,740

¥ (471,978)

¥ (9,341)

¥ 2,280,895

(Continued on following page.)

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	Yen in millions						
	Subsidiary tracking stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Treasury stock, at cost	Total
Balance at March 31, 2003	¥ 3,917	¥ 472,361	¥ 984,196	¥ 1,301,740	¥ (471,978)	¥ (9,341)	¥ 2,280,895
Conversion of convertible bonds		3,989	3,988				7,977
Stock issued under exchange offering (Note 16)			5,409				5,409
Comprehensive income:							
Net income				88,511			88,511
Other comprehensive income, net of tax (Note 16)							
Unrealized gains on securities:							
Unrealized holding gains or losses arising during the period					57,971		57,971
Less: Reclassification adjustment for gains or losses included in net income					(5,679)		(5,679)
Unrealized losses on derivative instruments:							
Unrealized holding gains or losses arising during the period					7,537		7,537
Less: Reclassification adjustment for gains or losses included in net income					(3,344)		(3,344)
Minimum pension liability adjustment					93,415		93,415
Foreign currency translation adjustments :							
Translation adjustments arising during the period					(129,113)		(129,113)
Less: Reclassification adjustment for losses included in net income					1,232		1,232

Total comprehensive 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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	Yen in millions						
	Subsidiary tracking stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Treasury stock, at cost	Total
Balance at March 31, 2004	¥ 3,917	¥ 476,350	¥ 992,817	¥ 1,367,060	¥ (449,959)	¥ (12,183)	¥ 2,378,002
Exercise of stock acquisition rights		52	53				105
Conversion of convertible bonds		141,390	141,354				282,744
Stock based compensation (Note 17)			340				340
Comprehensive income:							
Net income				163,838			163,838
Other comprehensive income, net of tax (Note 16) -							
Unrealized gains on securities:							
Unrealized holding gains or losses arising during the period					5,643		5,643
Less: Reclassification adjustment for gains or losses included in net income					(12,924)		(12,924)
Unrealized losses on derivative instruments:							
Unrealized holding gains or losses arising during the period					(209)		(209)
Less: Reclassification adjustment for gains or losses included in net income					(1,681)		(1,681)
Minimum pension liability adjustment					(769)		(769)
Foreign currency translation adjustments:							
Translation adjustments arising during the period					74,224		74,224

Total comprehensive income							228,122
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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	Dollars in millions (Note 3)						
	Subsidiary tracking stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Treasury stock, at cost	Total
Balance at March 31, 2004	\$ 36	\$ 4,452	\$ 9,279	\$ 12,776	\$ (4,205)	\$ (114)	\$ 22,224
Exercise of stock acquisition rights		1	1				2
Conversion of convertible bonds		1,321	1,320				2,641
Stock based compensation (Note 17)			3				3
Comprehensive income:							
Net income				1,531			1,531
Other comprehensive income, net of tax (Note 16)							
-							
Unrealized gains on securities:							
Unrealized holding gains or losses arising during the period					53		53
Less: Reclassification adjustment for gains or losses included in net income					(121)		(121)
Unrealized losses on derivative instruments:							
Unrealized holding gains or losses arising during the period					(2)		(2)
Less: Reclassification adjustment for gains or losses included in net income					(16)		(16)
Minimum pension liability adjustment					(7)		(7)
Foreign currency translation adjustments:							
Translation adjustments arising during the period					694		694
Total comprehensive income							2,132

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Stock issue costs, net of tax				(5)				(5)
Dividends declared				(224)				(224)
Purchase of treasury stock							(4)	(4)
Reissuance of treasury stock			(3)	(2)			62	57
Balance at March 31, 2005	\$ 36	\$ 5,774	\$ 10,600	\$ 14,076	\$ (3,604)	\$ (56)	\$ 26,826	

The accompanying notes are an integral part of these statements.

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Sony Corporation and Consolidated Subsidiaries

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Notes to Consolidated Financial Statements

Sony Corporation and Consolidated Subsidiaries

1. Nature of operations

Sony Corporation and 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 the development, production, manufacture, and distribution of recorded music, in all commercial formats and music genres. Further, Sony is engaged in various financial service businesses including insurance operations through a Japanese life insurance subsidiary and non-life insurance subsidiaries, 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 Internet-related businesses, an animation production and marketing business, an imported general merchandise retail business, an IC card 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 (AcSEC) issued the 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

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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 (\$48 million) for the year ended March 31, 2005. Additionally, on April 1, 2004, Sony recorded a ¥4,713 million (\$44 million) charge (net of income taxes of ¥2,675 million) as a cumulative effect of an accounting change. In addition, the separate account assets, which are defined by insurance business law in Japan and were previously included in Securities investments and other in the consolidated balance sheet, were excluded from the category of separate accounts under the provision of SOP 03-1. Accordingly, the assets previously treated as separate account assets are now treated within general account assets.

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 year ended March 31, 2004 were restated respectively. Sony's diluted EPS of income before cumulative effect of an accounting change and net income for the year ended March 31, 2005 were decreased by ¥7.26 (\$0.07) and ¥7.06 (\$0.07), respectively, compared to those before adopting EITF Issue No. 04-8.

Employers' Disclosures about Pensions and Other Postretirement Benefits -

In December 2003, the Financial Accounting Standards Board (FASB) issued FAS No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits* (FAS No. 132(R)), which revised FAS No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits* , an amendment of FAS No. 87, *Employers' Accounting for Pensions* , FAS No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits* , and FAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions* . FAS No. 132(R) revised employers' disclosures about pension plans and other postretirement benefit plans. It did not change the measurement or recognition of those plans required by FAS No. 87, 88 and 106. While retaining the disclosure requirements of FAS No. 132, FAS No. 132(R) requires additional disclosures about assets, obligations and cash flows. The provisions of FAS No. 132(R) were generally effective for financial statements with fiscal years ending after December 15, 2003, excluding the disclosure of certain information about foreign plans. The information about foreign plans is effective for fiscal years ending after June 15, 2004. In accordance with FAS No. 132(R), Note 15, Pension and severance plans, has been expanded to include the new disclosures.

Table of Contents**Consolidation of Variable Interest Entities -**

In January 2003, the FASB issued FASB Interpretation (FIN) No. 46, Consolidation of Variable Interest Entities an Interpretation of 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 as a cumulative effect of accounting change in the consolidated statement of income, and Sony s assets and liabilities increased by ¥95,255 million and ¥97,950 million, 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. See Note 23 for further discussion on the VIEs that are used by Sony.

In December 2003, the FASB issued revised FIN No. 46 (FIN No. 46R), which replaced FIN No. 46. Sony early adopted the provisions of FIN No. 46R upon its issuance. 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.

(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.

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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.

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

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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, game and music 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.

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 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 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 a period of up 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.

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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 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.

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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, 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

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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 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 Accounting Principle Board Opinion (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 or subsidiary tracking 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 17 for detailed assumptions.

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	Yen in millions			Dollars in millions
	Year ended March 31			Year ended
	2003	2004	2005	March 31, 2005
Income before cumulative effect of an accounting change allocated to common stock:				
As reported	¥ 115,648	¥ 90,756	¥ 168,498	\$ 1,575
Deduct: Total stock-based compensation expense determined under the fair value based method, net of related tax effects	(7,008)	(6,334)	(4,690)	(44)
Pro forma	¥ 108,640	¥ 84,422	¥ 163,808	\$ 1,531
Net income allocated to common stock:				
As reported	¥ 115,648	¥ 88,639	¥ 163,785	\$ 1,531
Deduct: Total stock-based compensation expense determined under the fair value based method, net of related tax effects	(7,008)	(6,334)	(4,690)	(44)
Pro forma	¥ 108,640	¥ 82,305	¥ 159,095	\$ 1,487

	Yen			Dollars
	Year ended March 31			Year ended
	2003	2004	2005	March 31, 2005
Income before cumulative effect of an accounting change allocated to common stock:				
-Basic EPS:				
As reported	¥ 125.74	¥ 98.26	¥ 180.96	\$ 1.69
Pro forma	118.12	91.40	175.92	1.64
-Diluted EPS:				
As reported	¥ 118.21	¥ 89.03	¥ 162.59	\$ 1.52
Pro forma	111.20	82.96	158.10	1.48
Net income allocated to common stock:				
-Basic EPS:				
As reported	¥ 125.74	¥ 95.97	¥ 175.90	\$ 1.64
Pro forma	118.12	89.11	170.86	1.60
-Diluted EPS:				
As reported	¥ 118.21	¥ 87.00	¥ 158.07	\$ 1.48
Pro forma	111.20	80.94	153.58	1.44

Net income and net income per share allocated to the subsidiary tracking stock would not be impacted if Sony had applied the fair value recognition provisions of FAS No. 123.

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 year ended March 31, 2004 were restated in the above table.

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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, game and music 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 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.

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Accounting for consideration given to a customer or a reseller -

In accordance with EITF Issue No. 01-09, 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 years ended March 31, 2003, 2004 and 2005, consideration given to a reseller, primarily for free promotional shipping and cooperative advertising programs included in selling, general and administrative expense totaled ¥29,135 million, ¥30,338 million and ¥27,946 million (\$261 million), 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, 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.

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

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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. In addition, 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 a 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 filling unit.

Net income per share -

Sony calculates and presents per share data separately for Sony's common stock and for the subsidiary tracking stock, based on FAS No. 128. The holders of the subsidiary tracking stock have the right to participate in earnings, together with common stockholders. Accordingly, Sony calculates per share data by the two-class method based on FAS No. 128. Under this method, basic net income per share (EPS) for each class of stock is 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 are 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 is based on the declared dividends of the targeted subsidiary, which may only be declared from the amounts available for dividends of the targeted subsidiary. The targeted subsidiary's earnings available for dividends are, as stipulated by the Japanese Commercial Code, not including those of the targeted subsidiary's subsidiaries. If the targeted subsidiary has accumulated losses, a change in accumulated losses is also allocated to the subsidiary tracking stock. The subsidiary tracking stock holders' economic interest is calculated as the number of the subsidiary tracking stock outstanding (3,072,000 shares as of March 31, 2005) divided by the number of the targeted subsidiary's common stock outstanding (235,520 shares as of March 31, 2005), 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 common stock are calculated by subtracting the earnings allocated to the subsidiary

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tracking stock from Sony's net income for the period.

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.

There are no potentially dilutive securities for net income per subsidiary tracking stock, as tracking stock shares outstanding are increased upon potential subsidiary tracking stocks being exercised, which results 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.

(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 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. 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 options for transition methods as prescribed in FAS No. 123(R) include either the modified prospective or the modified retrospective methods. Sony intends to adopt the modified prospective method of transition, 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. Sony is currently evaluating the impact of adopting this new pronouncement. However, Sony expects that the total expenses to be recorded in the future periods will be consistent with the pro forma information 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 Accounting Research Bulletin (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 inventory 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**Exchanges of Nonmonetary Assets -**

In December 2004, the FASB issued FAS No. 153, Exchanges of Nonmonetary Assets, an amendment of APB Opinion 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 shall be effective for nonmonetary asset exchanges occurring in the fiscal periods beginning after June 15, 2005, with early adoption during the fiscal periods beginning after the date this statement is issued encouraged. Sony is currently evaluating the impact of adopting this new pronouncement.

(4) Reclassifications:

Certain reclassifications of the financial statements for the years ended March 31, 2003 and 2004 have been made to conform to the presentation for the year ended March 31, 2005.

3. U.S. dollar amounts

U.S. dollar amounts presented in the financial statements are included solely for the convenience of the reader. These translations should not be construed as representations that the yen amounts actually represent, or have been or could be converted into U.S. dollars. As the amounts shown in U.S. dollars are for convenience only, the rate of ¥107 = U.S.\$1, the approximate current rate at March 31, 2005, has been used for the purpose of presentation of the U.S. dollar amounts in the accompanying consolidated financial statements.

4. Inventories

Inventories comprise the following:

	Yen in millions		Dollars in millions
	March 31		March 31,
	2004	2005	2005
Finished products	¥ 427,877	¥ 405,616	\$ 3,791
Work in process	98,607	93,181	871
Raw materials, purchased components and supplies	140,023	132,552	1,238
	¥ 666,507	¥ 631,349	\$ 5,900

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Film costs comprise the following:

	Yen in millions		Dollars in millions
	March 31		March 31,
	2004	2005	2005
Theatrical:			
Released (including acquired film libraries)	¥ 136,057	¥ 119,438	\$ 1,116
Completed not released	7,946	11,358	106
In production and development	79,198	118,271	1,106
Television licensing:			
Released (including acquired film libraries)	33,378	29,894	279
In production and development	161	0	0
	¥ 256,740	¥ 278,961	\$ 2,607

Sony estimates that approximately 88% of unamortized costs of released films (excluding amounts allocated to acquired film libraries) at March 31, 2005 will be amortized within the next three years. Approximately ¥94,790 million (\$886 million) of released film costs are expected to be amortized during the next twelve months. As of March 31, 2005, unamortized acquired film libraries of approximately ¥12,371 million (\$116 million) remained to be amortized on a straight-line basis over an average of the remaining life of 5 years. Approximately ¥108,833 million (\$1,017 million) of accrued participation liabilities included in accounts payable, other and accrued expenses are expected to be paid during the next twelve months.

6. 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 (50% minus 1 share), ST Liquid Crystal Display Corporation (50%), bit Wallet, Inc (34.6%), STAR CHANNEL, INC. (17.8%), and InterTrust Technologies Corporation (49.5%).

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Summarized combined financial information that is based on information provided by equity investees is shown below:

	Yen in millions		Dollars in millions
	March 31		March 31,
	2004	2005	2005
Current assets	¥ 433,154	¥ 942,328	\$ 8,807
Property, plant and equipment	94,130	361,406	3,377
Other assets	57,756	250,245	2,339
Total assets	¥ 585,040	¥ 1,553,979	\$ 14,523
Current liabilities	¥ 397,242	¥ 876,430	\$ 8,191
Long-term liabilities	27,639	115,999	1,084
Stockholders' equity	160,159	561,550	5,248
Total liabilities and stockholders' equity	¥ 585,040	¥ 1,553,979	\$ 14,523
Number of companies at end of the fiscal year	66	56	

	Yen in millions			Dollars in millions
	Year ended March 31			Year ended
	2003	2004	2005	March 31,
Sales and revenue	¥ 785,697	¥ 1,009,005	¥ 1,473,273	\$ 13,769
Gross profit	140,078	231,083	477,796	4,465
Net income (loss)	(81,422)	11,323	63,404	593

In April 2002, Sony completed the sale of its equity interest in the Telemundo Group which resulted in cash proceeds of ¥88,373 million and a gain of ¥66,502 million. In the year ended March 31 2003, Sony had deferred ¥5,939 million of the gain related to the sale of Telemundo as a result of certain indemnifications provided by Sony to the acquirer, which was subsequently recognized in April 2003, as these indemnifications expired with no amounts being refunded by Sony.

In June 2002, Sony completed the partial sale of its equity investment in the Columbia House Company (CHC), a 50-50 joint venture between AOL Time Warner Inc. and Sony, to Blackstone Capital Partners III LP (Blackstone), an affiliate of The Blackstone Group, a private investment bank. The chairman of The Blackstone Group was also a director of Sony until June 2002. Under the terms of the sale agreement, Sony received cash proceeds of ¥17,839 million and a subordinated note receivable from Columbia House Holdings, Inc., a majority owned subsidiary of Blackstone, with a face amount of ¥7,827 million. The sale resulted in a gain of ¥1,324 million. As of March 31, 2005, Sony still had a 7.5% ownership interest in CHC, which was accounted for as a cost method investment as a

result of the partial sale of this investment. In May 2005, an agreement was reached between Blackstone and a third party for the sale of CHC to the third party. As part of this transaction, Sony has also agreed to sell its remaining ownership interest in CHC and settle the outstanding subordinated note receivable.

In September 2002, Sony completed the sale of its equity interest in Sony Tektronix Inc., which resulted in a gain of

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¥3,090 million.

In January 2003, Sony acquired a 49.5% interest in InterTrust Technologies Corporation for ¥23,076 million.

In May 2003, Sony acquired the remaining 50% interest in American Video Glass Company (AVGC) that it did not own from Corning Asahi Corporation. As a result, AVGC is no longer accounted for under the equity method and is now a consolidated subsidiary. The financial position and operating results of AVGC as of and for the years ended March 31, 2004 and 2005 are not included in the above summarized combined financial information.

Effective July 1, 2003, in accordance with FIN No. 46, Sony consolidated BE-ST Bellevuestrasse Development GmbH & Co. First Real Estate KG, Berlin (BE-ST). As a result, BE-ST is no longer accounted for under the equity method (Note 23). The financial position and operating results of BE-ST as of and for the years ended March 31, 2004 and 2005 are not included in the above summarized combined financial information.

In August 2003, Crosswave Communications Inc. (CWC), of which Sony owned approximately a 23.9% interest, commenced reorganization proceedings under the Corporate Reorganization Law of Japan. As a result, Sony no longer has a significant influence on the decision making of CWC. Therefore, CWC is no longer accounted for under the equity method. The financial position and operating results of CWC as of and for the years ended March 31, 2004 and 2005 are not included in the above summarized combined financial information.

S-LCD Corporation, 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 (\$935 million) in S-LCD Corporation during the 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 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 in cash per MGM share, for a total purchase price of approximately \$5.0 billion. As part of this transaction, Sony Pictures Entertainment (SPE) will co-finance and produce new motion pictures with MGM as well as distribute MGM's existing film and television contents through SPE's global distribution channels. MGM will continue 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 for 20% of the total equity capital. However, based on the percentage of common stock owned, Sony will record 45% of MGM's net income (loss) as equity in net income of affiliated companies.

Affiliated companies accounted for under the equity method with an aggregate carrying amount of ¥6,081 million and ¥17,676 million (\$165 million) at March 31, 2004 and 2005, were quoted on established markets at an aggregate value of ¥37,603 million and ¥95,246 million (\$890 million), respectively.

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Account balances and transactions with affiliated companies accounted for under the equity method are presented below:

	Yen in millions		Dollars in millions
	March 31		March 31,
	2004	2005	2005
Accounts receivable, trade	¥ 62,359	¥ 50,062	\$ 468
Advances	¥ 561	¥ 16,756	\$ 157
Accounts payable, trade	¥ 13,547	¥ 15,225	\$ 142

	Yen in millions			Dollars in millions
	Year ended March 31			Year ended
	2003	2004	2005	March 31,
Sales	¥ 161,983	¥ 258,454	¥ 256,799	\$ 2,400
Purchases	¥ 102,735	¥ 106,100	¥ 101,976	\$ 953

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 an 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 year ended March 31, 2005.

Dividends from affiliated companies accounted for under the equity method for the years ended March 31, 2003, 2004 and 2005 were ¥2,002 million, ¥3,446 million and ¥13,391 million (\$125 million), respectively.

7. Accounts receivable securitization programs

In the United States of America, Sony set up an accounts receivable securitization program whereby Sony can sell interests in up to ¥53,500 million (\$500 million) of eligible trade accounts receivable, as defined. Through this program, Sony can securitize and sell a percentage of undivided interest in that pool of receivables to several multi-seller commercial paper conduits owned and operated by a bank. Sony can sell receivables in which the agreed upon original due dates are no more than 90 days after the invoice dates. The value assigned to undivided interests

retained in securitized trade receivables is based on the relative fair values of the interest retained and sold in the securitization. Sony has assumed that the fair value of the retained interest is equivalent to its carrying value as the receivables are short-term in nature, high quality and have appropriate reserves for bad debt incidence. These

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securitization 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. During the period from April 2004 to January 2005, Sony sold a total of ¥80,250 million (\$750 million) 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.

In Japan, Sony set up several accounts receivable securitization programs whereby Sony can sell up to ¥47,500 million (\$444 million) of eligible trade accounts receivable. Through these programs, Sony can securitize and 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 invoice dates. These securitization transactions are accounted for as a sale in accordance with FAS No. 140, because Sony has relinquished control of the receivables. The initial sale of the receivables was in March 2005 in which Sony sold a total of ¥10,041 million (\$94 million). 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.

Table of Contents**8. 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:

	Yen in millions							
	Cost	March 31, 2004		Fair value	Cost	March 31, 2005		Fair value
		Gross unrealized gains	Gross unrealized losses			Gross unrealized gains	Gross unrealized losses	
Available-for-sale:								
Debt securities	¥ 1,938,673	¥ 55,922	¥ (2,072)	¥ 1,992,523	¥ 2,090,605	¥ 58,161	¥ (2,464)	¥ 2,146,302
Equity securities	86,517	63,225	(1,886)	147,856	107,126	49,350	(814)	155,662
Held-to-maturity Securities	26,439	381	(28)	26,792	27,431	530	(13)	27,948
Total	¥ 2,051,629	¥ 119,528	¥ (3,986)	¥ 2,167,171	¥ 2,225,162	¥ 108,041	¥ (3,291)	¥ 2,329,912

	Dollars in millions			
	Cost	March 31, 2005		Fair value
		Gross unrealized gains	Gross unrealized losses	
Available-for-sale:				
Debt securities	\$ 19,538	\$ 544	\$ (23)	\$ 20,059
Equity securities	1,002	461	(8)	1,455
Held-to-maturity securities	256	5	(0)	261
Total	\$ 20,796	\$ 1,010	\$ (31)	\$ 21,775

At March 31, 2005, 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 ¥215,554 million, ¥397,817 million and ¥613,035 million (\$5,729 million) for the years ended March 31, 2003, 2004 and 2005, respectively. On those sales, gross realized gains computed on the average cost basis were ¥3,570 million, ¥9,525 million and ¥24,080 million (\$225 million) and gross realized losses were ¥3,125 million, ¥1,906 million and ¥5,940 million (\$56 million), respectively.

Marketable securities classified as trading securities at March 31, 2004 and 2005 were ¥131,044 million and ¥315,946 million (\$2,953 million), 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, 2004 and 2005, were ¥51,367 million and ¥48,877 million (\$457

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million), respectively. 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.

Securities investments and other as of March 31, 2004 also included separate account assets (Note 11) in the life insurance business, which were carried at fair value and excluded from the above table as gains or losses accrue directly to policyholders. As a result of the adoption of SOP 03-1, the separate account assets, which are defined by insurance business law in Japan and were previously included in Securities investments and other on the consolidated balance sheet, were excluded from the category of separate accounts under the provision of SOP 03-1. Accordingly, the assets previously treated as separate account assets are now treated within general account assets. On April 1, 2004, assets of ¥164,461 million (\$1,537 million) were reclassified from Securities investments and other to each respective account by nature including Marketable securities and Cash and cash equivalents. Of the total, ¥154,528 million (\$1,444 million) was reclassified to Marketable securities.

The net change in the unrealized gains or losses on trading securities that has been included in earnings during the years ended March 31, 2003 and 2004 was insignificant. For the year ended March 31, 2005, Sony booked ¥12,631 million (\$118 million) of net unrealized gain on trading securities which is mainly derived from the general accounts in the life insurance business reclassified from the separate accounts as explained above.

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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, 2005.

	Yen in millions					
	Less than 12 months		12 months or More		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Available-for-sale:						
Debt securities	¥ 242,388	¥ (2,044)	¥ 41,523	¥ (420)	¥ 283,911	¥ (2,464)
Equity securities	11,010	(457)	1,225	(357)	12,235	(814)
Held-to-maturity securities	239	(0)	660	(13)	899	(13)
Total	¥ 253,637	¥ (2,501)	¥ 43,408	¥ (790)	¥ 297,045	¥ (3,291)

	Dollars in millions					
	Less than 12 months		12 months or More		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Available-for-sale:						
Debt securities	\$ 2,265	\$ (19)	\$ 388	\$ (4)	\$ 2,653	\$ (23)
Equity securities	103	(5)	12	(3)	115	(8)
Held-to-maturity securities	2	(0)	6	(0)	8	(0)
Total	\$ 2,370	\$ (24)	\$ 406	\$ (7)	\$ 2,776	\$ (31)

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, 2005, Sony determined that the decline in value for securities with unrealized losses shown in the above table is not other-than-temporary in nature.

Table of Contents**9. Leased assets**

Sony leases certain communication and commercial equipment, plant, office space, warehouses, employees residential facilities and other assets.

An analysis of leased assets under capital leases is as follows:

Class of property	Yen in millions		Dollars in millions
	March 31		March 31,
	2004	2005	2005
Land	¥ 174	¥ 181	\$ 2
Buildings	12,421	11,089	104
Machinery, equipment and others	36,907	33,747	315
Accumulated depreciation	(19,385)	(18,509)	(173)
	¥ 30,117	¥ 26,508	\$ 248

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, 2005:

	Yen in millions	Dollars in millions
Year ending March 31:		
2006	¥ 15,211	\$ 142
2007	11,062	103
2008	8,895	83
2009	10,873	102
2010	3,001	28
Later years	5,428	51
Total minimum lease payments	54,470	509
Less - Amount representing interest	14,169	132
Present value of net minimum lease payments	40,301	377
Less - Current obligations	11,713	110
Long-term capital lease obligations	¥ 28,588	\$ 267

Minimum lease payments have not been reduced by minimum sublease income of ¥11,480 million (\$107 million) due in the future under noncancelable subleases.

Minimum rental expenses under operating leases for the years ended March 31, 2003, 2004 and 2005 were ¥94,364 million, ¥92,649 million and ¥81,391 million (\$761 million), respectively. Sublease rentals received under operating leases for the years ended March 31, 2003, 2004 and 2005 were ¥6,240 million, ¥2,923 million and ¥1,933 million (\$18 million), respectively. The total minimum rentals to be received in the future under noncancelable subleases as of March 31, 2005 were ¥14,954 million (\$140 million). The minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year at March 31, 2005 are as follows:

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	Yen in millions	Dollars in millions
Year ending March 31:		
2006	¥ 38,182	\$ 357
2007	30,568	286
2008	22,993	215
2009	14,060	131
2010	10,496	98
Later years	53,652	501
Total minimum future rentals	¥ 169,951	\$ 1,588

10. Goodwill and intangible assets

Intangible assets acquired during the year ended March 31, 2005 totaled ¥22,844 million (\$213 million), which are subject to amortization and primarily consist of acquired patent rights of ¥6,673 million (\$62 million) and software to be sold, leased or otherwise marketed of ¥11,546 million (\$108 million). The weighted average amortization period for 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:

	Yen in millions				Dollars in millions	
	2004		2005		March 31, 2005	
	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated Amortization
Artist contracts	¥ 80,675	¥ (68,300)	¥ 15,218	¥ (11,094)	\$ 142	\$ (104)
Music catalog	109,795	(47,610)	65,674	(19,641)	614	(184)
Acquired patent rights	52,996	(23,172)	55,173	(26,139)	516	(244)
Software to be sold, leased or otherwise marketed	31,983	(13,577)	31,907	(16,181)	298	(151)
Other	55,048	(27,422)	27,648	(11,625)	258	(108)
Total	¥ 330,497	¥ (180,081)	¥ 195,620	¥ (84,680)	\$ 1,828	\$ (791)

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The aggregate amortization expenses for intangible assets for the years ended March 31, 2003, 2004 and 2005 was ¥27,871 million, ¥28,866 million and ¥24,993 million (\$234 million), respectively. The estimated aggregate amortization expense for intangible assets for the next five years is as follows:

Year ending March 31,	Yen in millions	Dollars in millions
2006	¥22,650	\$ 212
2007	18,287	171
2008	12,202	114
2009	10,623	99
2010	8,874	83

Total carrying amount of intangible assets having an indefinite life comprise the following:

	Yen in millions		Dollars in millions
	March 31		
	2004	2005	March 31, 2005
Trademarks	¥57,384	¥57,195	\$ 535
Distribution agreement	18,834	18,848	176
	¥76,218	¥76,043	\$ 711

In addition to the amortizable and indefinite-lived intangible assets shown in the above tables, intangible assets at March 31, 2004 and 2005 also include unrecognized prior service costs totaling ¥21,376 million and ¥41 million (\$0 million), respectively, which were recorded under FAS No. 87 as discussed in Note 15.

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The changes in the carrying amount of goodwill by operating segment for the years ended March 31, 2004 and 2005 are as follows:

	Yen in millions						
	Electronics	Game	Music	Pictures	Financial Services	Other	Total
Balance at March 31, 2003	¥ 53,179	¥ 110,606	¥ 46,021	¥ 78,697		¥ 1,624	¥ 290,127
Goodwill acquired during year	5,634		76	1,666		534	7,910
Impairment losses	(6,049)						(6,049)
Other *	(528)	(244)	(3,771)	(9,574)		(1)	(14,118)
Balance at March 31, 2004	52,236	110,362	42,326	70,789		2,157	277,870
Reallocated from Music segment to Electronics segment	12,329		(12,329)				
Goodwill acquired during year	5,872	4,349	52	5,868	¥ 441	2,069	18,651
Goodwill contributed to the Joint Venture with Bertelsmann AG			(15,626)				(15,626)
Other *	378	29	1,281	1,277		63	3,028
Balance at March 31, 2005	¥ 70,815	¥ 114,740	¥ 15,704	¥ 77,934	¥ 441	¥ 4,289	¥ 283,923

	Dollars in millions						
	Electronics	Game	Music	Pictures	Financial Services	Other	Total
Balance at March 31, 2004	\$ 488	\$ 1,031	\$ 396	\$ 662		\$ 20	\$ 2,597
Reallocated from Music segment to Electronics segment	116		(116)				
Goodwill acquired during year	55	41	1	54	\$ 4	19	174
Goodwill contributed to the Joint Venture with Bertelsmann AG			(146)				(146)
Other *	3	0	12	12		1	28
Balance at March 31, 2005	\$ 662	\$ 1,072	\$ 147	\$ 728	\$ 4	\$ 40	\$ 2,653

* Other consists of translation adjustments and reclassification to/from other accounts.

During the year ended March 31, 2004, Sony performed the annual impairment test for goodwill and recorded an impairment loss of ¥6,049 million in the Electronics segment. This impairment charge reflected the overall decline in the fair value of a subsidiary within the Electronics segment. The fair value of that reporting unit was estimated principally using the expected present value of future cash flows.

As discussed in Notes 6 and 25, 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 (\$146 million) 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 (\$116 million) of goodwill relating to the non-Japan based disc manufacturing and physical distribution business from the Music segment to the Electronics segment.

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11. 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 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, 2004 and 2005 were ¥146,540 million and ¥153,228 million (\$1,432 million), 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 years ended March 31, 2003, 2004 and 2005 were ¥450,363 million, ¥437,835 million and ¥426,774 million (\$3,989 million), 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 years ended March 31, 2003, 2004 and 2005 were ¥21,269 million, ¥28,371 million and ¥35,454 million (\$331 million), 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 years ended March 31, 2003, 2004 and 2005 amounted to ¥44,578 million, ¥50,492 million and ¥47,120 million (\$440 million), 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, morbidity, mortality and withdrawals. Future policy benefits are computed using interest rates

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ranging from approximately 1.30% to 5.20%. Mortality, morbidity and withdrawal assumptions for all policies are based on either the subsidiary's own experience or various actuarial tables. At March 31, 2004 and 2005, future insurance policy benefits amounted to ¥1,605,178 million and ¥1,782,850 million (\$16,662 million), respectively.

(4) Separate account assets:

Separate account assets are funds on which investment income and gains or losses accrue directly to policyholders. Separate account assets are legally segregated. They are not subject to the claims that may arise out of any other business of a life insurance subsidiary. As described in Note 2, the AcSEC issued SOP 03-1, Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts. As a result of the adoption of SOP 03-1 on April 1, 2004, the separate account assets, which are defined by insurance business law in Japan and were previously included in Securities investments and other (Note 8) in the consolidated balance sheet, were excluded from the category of separate accounts under the provision of SOP 03-1. Accordingly, the assets previously treated as separate account assets are now treated within general account assets. The related liabilities are treated as policyholders' account and included in future insurance policy benefits and other in the consolidated balance sheet. Fees earned for administrative and contract-holder services performed for the separate accounts are recognized as financial service revenue.

12. Short-term borrowings and long-term debt

Short-term borrowings comprise the following:

	Yen in millions		Dollars in millions
	March 31		March 31,
	2004	2005	2005
Unsecured loans, principally from banks:			
with weighted-average interest rate of 1.80%	¥ 26,260		
with weighted-average interest rate of 2.79%		¥ 38,796	\$ 362
Secured call money:			
with weighted-average interest rate of 0.01%	65,000		
Secured bills sold:			
with weighted-average interest rate of 0.00%		24,600	230
	¥ 91,260	¥ 63,396	\$ 592

At March 31, 2005, marketable securities and securities investments with a book value of ¥27,433 million (\$256 million) were pledged as collateral for bills sold by a Japanese bank subsidiary.

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Long-term debt comprises the following:

	Yen in millions		Dollars in
	March 31, 2004	March 31, 2005	millions March 31, 2005
Secured loans, representing obligations to banks:			
Due 2004 to 2008 with interest ranging from 2.20% to 3.73% per annum	¥ 58,786		
Due 2005 to 2008 with interest of 2.20% per annum		¥ 1,122	\$ 11
Unsecured loans, representing obligations principally to banks:			
Due 2004 to 2017 with interest ranging from 1.77% to 5.89% per annum	77,646		
Due 2005 to 2017 with interest ranging from 0.23% to 5.89% per annum		113,436	1,060
Medium-term notes of consolidated subsidiaries:			
Due 2004 to 2006 with interest ranging from 1.09% to 4.95% per annum	60,537		
Due 2006 with interest ranging from 2.78% to 4.95% per annum		58,755	550
Unsecured 1.4% convertible bonds, due 2005, convertible at ¥3,995.5 for one common share, redeemable before due date	287,753		
Unsecured zero coupon convertible bonds, due 2008, convertible currently at ¥5,605 (\$52) for one common share, redeemable before due date	250,000	250,000	2,336
Unsecured 0.03% bonds, due 2004 with detachable warrants, net of unamortized discount	3,981		
Unsecured 0.1% bonds, due 2005 with detachable warrants, net of unamortized discount	3,924	3,981	37
Unsecured 1.55% bonds, due 2006 with detachable warrants	12,000	12,000	112
Unsecured 0.9% bonds, due 2007 with detachable warrants	7,300	7,300	68
Unsecured 0.9% bonds, due 2007 with detachable warrants of subsidiary tracking stock	150	150	1
Unsecured 1.42% bonds, due 2005, net of unamortized discount	99,994	99,998	935
Unsecured 0.64% bonds, due 2006, net of unamortized discount	99,994	99,996	935
Unsecured 2.04% bonds, due 2010, net of unamortized discount	49,981	49,984	467
Unsecured 1.52% bonds, due 2011, net of unamortized discount	49,996	49,997	467
Unsecured 2.0% bonds, due 2005	15,000	15,000	140
Unsecured 1.99% bonds, due 2007	15,000	15,000	140
Unsecured 2.35% bonds, due 2010	4,900	4,900	46
Capital lease obligations:			
Due 2004 to 2014 with interest ranging from 2.15% to 30.00% per annum	42,689		
Due 2005 to 2019 with interest ranging from 1.55% to 30.00% per annum		40,301	377
Guarantee deposits received	21,775	23,942	224
	1,161,406	845,862	7,906
Less - Portion due within one year	383,757	166,870	1,560
	¥ 777,649	¥ 678,992	\$ 6,346

At March 31, 2005, machinery and equipment with a book value of ¥4,502 million (\$42 million) were pledged as collateral for secured loans, representing obligations to banks.

There are no adverse debt covenants or cross-default provisions relating to Sony's borrowings.

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A summary of the exercise rights of the detachable warrants as of March 31, 2005 is as follows:

Issued on	Exercisable during	Exercise price		Number of shares per warrant	Status of exercise
		Yen	Dollars		
August 23, 1999	September 1, 2000 through August 22, 2005	7,167	67	279 shares of common stock of Sony Corporation	2,000 warrants outstanding
October 19, 2000	November 1, 2001 through October 18, 2006	12,457	116	100 shares of common stock of Sony Corporation	9,600 warrants outstanding
December 21, 2001	January 6, 2003 through December 20, 2007	6,039	56	100 shares of common stock of Sony Corporation	11,534 warrants outstanding
December 21, 2001	June 20, 2002 through June 20, 2007	3,300	31	75 shares of subsidiary tracking stock	600 warrants outstanding

Aggregate amounts of annual maturities of long-term debt during the next five years are as follows:

Year ending March 31	Yen in millions		Dollars in millions	
	¥		\$	
2006	166,870		1,560	
2007	178,117		1,665	
2008	32,059		300	
2009	282,430		2,640	
2010	2,909		27	

At March 31, 2005, Sony had unused committed lines of credit amounting to ¥863,956 million (\$8,074 million) 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 ¥1,251,450 million (\$11,696 million). There was no commercial paper outstanding at March 31, 2005. 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 ¥536,750 million (\$5,016 million). At March 31, 2005, the total outstanding balance of Medium Term Notes was ¥58,755 million (\$550 million).

13. 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, 2004 and 2005, the balance of time deposits issued in amounts of ¥10 million (\$93 thousand) or more were ¥55,164 million and ¥67,387 million (\$630 million), respectively.

At March 31, 2005, aggregate amounts of annual maturities of time deposits with a remaining term of more than

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one year include ¥25,697 million (\$240 million) and ¥23,910 million (\$223 million) for the years ending March 31, 2007 and 2008, respectively. There are no deposits having a maturity date after March 31, 2008.

14. 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 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. Sony does not use these derivative financial instruments for trading or speculative purposes. 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 5 months after the balance sheet date.

Certain subsidiaries in the Financial Services segment use derivatives such as interest rate forward contracts as part of portfolio investments. These derivative transactions 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 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.

The amount of ineffectiveness of these fair value hedges, that was reflected in earnings, was not material for the years ended March 31, 2003, 2004 and 2005. In addition, there were no amounts excluded from the assessment of hedge effectiveness of fair value hedges.

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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 years ended March 31, 2003 and 2004, these cash flow hedges were fully effective. For the 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, 2005, amounts related to derivatives qualifying as cash flow hedges amounted to a net reduction of equity of ¥2,490 million (\$23 million). Within the next twelve months, ¥1,615 million (\$15 million) is expected to be reclassified from equity into earnings as loss. For the year ended March 31, 2005, there were no forecasted transactions that failed to occur which resulted in the discontinuance of cash flow hedges.

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, convertible rights included in convertible bonds and other. 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.

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

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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.

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 and foreign currency dominated intercompany debt, are marked-to-market with changes in value recognized in other income and expenses.

Interest rate forward contracts

Certain subsidiaries in the Financial Services segment have interest rate forward contracts as part of 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 carried at amounts which approximate fair value. The summary also excludes debt and equity securities which are disclosed in Note 8.

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	Yen in millions March 31					
	2004		Estimated fair value	2005		Estimated fair value
	Notional amount	Carrying amount		Notional amount	Carrying amount	
Long-term debt including the current portion		¥ (1,161,406)	¥ (1,235,669)		¥ (845,862)	¥ (856,321)
Foreign exchange forward contracts	¥ 1,348,157	(994)	(994)	¥ 1,545,814	(55)	(55)
Currency option contracts purchased	375,582	10,781	10,781	428,261	1,646	1,646
Currency option contracts written	124,925	(1,000)	(1,000)	146,506	(3,390)	(3,390)
Interest rate swap agreements	218,101	(4,229)	(4,229)	171,133	(4,417)	(4,417)
Interest rate and currency swap agreements	8,574	384	384	5,734	131	131
Interest rate forward contracts	17,007	(9)	(9)	136,470	(92)	(92)
Embedded derivatives	421,416	12,885	12,885	405,756	11,894	11,894

	Dollars in millions March 31, 2005		
	Notional amount	Carrying amount	Estimated fair value
Long-term debt including the current portion		\$ (7,906)	\$ (8,003)
Foreign exchange forward contracts	\$ 14,447	(1)	(1)
Currency option contracts purchased	4,002	15	15
Currency option contracts written	1,369	(32)	(32)
Interest rate swap agreements	1,599	(41)	(41)
Interest rate and currency swap agreements	54	1	1
Interest rate forward contracts	1,275	(1)	(1)
Embedded derivatives	3,792	111	111

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.

Table of Contents**15. 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 performance over that year. Under the point-based plan the amount of payment is determined by 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 (\$1,130 million).

Sony Corporation and most of its subsidiaries in Japan have contributory funded defined benefit pension plans, which are pursuant to the Japanese Welfare Pension Insurance Law. The contributory pension plans cover a substitutional portion of the governmental welfare pension program, under which the contributions are made by the companies and their employees, and an additional portion representing the substituted noncontributory pension plans. Under the contributory pension plans, the defined benefits representing the noncontributory portion of the plans, in general, 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 determined based on years of service and the compensation amounts, as stipulated in the aforementioned regulations, 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.

In June 2001, the Japanese Government issued the Law Concerning Defined-Benefit Corporation Plans which permits each employer and employees' pension fund plan to separate the substitutional portion from its employer 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. As of March 31, 2005 the benefit obligation for past employee services related to the substitutional portion and the related government-specified portion of the plan assets have not been transferred to the government.

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. In accordance with EITF Issue No. 03-2, no accounting for the transfer was recorded for the year ended March 31, 2005.

Many of 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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The components of net pension and severance costs, which exclude employee termination benefits paid in restructuring activities, for the years ended March 31, 2003, 2004 and 2005 were as follows:

Japanese plans:

	Yen in millions			Dollars in millions
	Year ended March 31			Year ended March 31,
	2003	2004	2005	2005
Service cost	¥ 47,884	¥ 54,501	¥ 31,971	\$ 299
Interest cost	20,857	19,489	21,364	200
Expected return on plan assets	(25,726)	(22,812)	(16,120)	(151)
Amortization of net transition asset	(375)	(375)	(375)	(4)
Recognized actuarial loss	20,655	31,019	20,236	189
Amortization of prior service cost	(939)	(939)	(7,216)	(67)
Gains on curtailments and settlements	(1,380)		(876)	(8)
Net periodic benefit cost	¥ 60,976	¥ 80,883	¥ 48,984	\$ 458

Foreign plans:

	Yen in millions			Dollars in millions
	Year ended March 31			Year ended March 31,
	2003	2004	2005	2005
Service cost	¥ 13,954	¥ 11,252	¥ 6,419	\$ 60
Interest cost	8,478	8,566	8,091	76
Expected return on plan assets	(7,319)	(6,812)	(6,712)	(63)
Amortization of net transition asset	(47)	(27)	(18)	(0)
Recognized actuarial loss	1,452	1,569	1,637	15
Amortization of prior service cost	(208)	(117)	(114)	(1)
(Gains) losses on curtailments and settlements	(460)	5,574	1,713	16
Net periodic benefit cost	¥ 15,850	¥ 20,005	¥ 11,016	\$ 103

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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		
	Yen in millions		Dollars in	Yen in millions		Dollars in
	March 31		millions	March 31		millions
	2004	2005	March 31, 2005	2004	2005	March 31, 2005
Change in benefit obligation:						
Benefit obligation at beginning of the fiscal year	¥ 1,031,760	¥ 993,542	\$ 9,285	¥ 157,580	¥ 155,838	\$ 1,456
Service cost	54,501	31,971	299	11,252	6,419	60
Interest cost	19,489	21,364	200	8,566	8,091	76
Plan participants contributions	5,802	2,111	20	644	873	8
Amendments		(120,873)	(1,130)	3,900	286	3
Actuarial (gain) loss	(81,873)	1,641	15	431	12,210	114
Foreign currency exchange rate changes				(17,082)	14,288	134
Curtailments and settlements		(2,988)	(28)	(66)	(628)	(6)
Benefits paid	(36,137)	(25,042)	(234)	(9,387)	(11,639)	(109)
Divestiture					(32,140)	(301)
Benefit obligation at end of the fiscal year	993,542	901,726	8,427	155,838	153,598	1,435
Change in plan assets:						
Fair value of plan assets at beginning of the fiscal year	405,248	513,095	4,795	67,937	85,662	800
Actual return (loss) on plan assets	93,154	(354)	(3)	13,065	7,513	70
Foreign currency exchange rate changes				(3,420)	3,517	33
Employer contribution	23,243	34,581	323	16,475	18,406	172
Plan participants contributions	5,802	2,111	20	644	873	8
Curtailments and settlements					(112)	(1)
Benefits paid	(14,352)	(14,982)	(140)	(9,039)	(11,168)	(104)
Divestiture					(12,666)	(118)
Fair value of plan assets at end of the fiscal year	¥ 513,095	¥ 534,451	\$ 4,995	¥ 85,662	¥ 92,025	\$ 860

In connection with the establishment of the SONY BMG joint venture with Bertelsmann AG as discussed in Note 6, Sony transferred ¥32,140 million (\$301 million) of its benefit obligation and ¥12,666 million (\$118 million) of its plan assets which were included in Sony's foreign plans to the joint venture.

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	Japanese plans			Foreign plans		
	Yen in millions		Dollars in millions	Yen in millions		Dollars in millions
	March 31		March	March 31		March
	2004	2005	31, 2005	2004	2005	31, 2005
Funded status	¥(480,447)	¥(367,275)	\$ (3,432)	¥(70,176)	¥(61,573)	\$ (575)
Unrecognized actuarial loss	328,467	322,237	3,011	27,550	37,383	349
Unrecognized net transition asset	(479)	(104)	(1)	211	7	0
Unrecognized prior service cost	(20,784)	(134,440)	(1,256)	(748)	(501)	(5)
Net amount recognized	¥(173,243)	¥(179,582)	\$ (1,678)	¥(43,163)	¥(24,684)	\$ (231)

Amounts recognized in the consolidated balance sheet consist of:

Prepaid benefit cost		¥ 1,795	\$ 17	¥ 2,609	¥ 1,351	\$ 13
Accrued pension and severance costs, including current portion	¥(322,677)	(309,957)	(2,897)	(61,452)	(42,934)	(401)
Intangibles	21,263			113	41	0
Accumulated other comprehensive income	128,171	128,580	1,202	15,567	16,858	157
Net amount recognized	¥(173,243)	¥(179,582)	\$ (1,678)	¥(43,163)	¥(24,684)	\$ (231)

The accumulated benefit obligation for all defined benefit pension plan as follows:

	Japanese plans			Foreign plans		
	Yen in millions		Dollars in millions	Yen in millions		Dollars in millions
	March 31		March	March 31		March
	2004	2005	31, 2005	2004	2005	31, 2005
Accumulated benefit obligation	¥ 830,898	¥ 835,420	\$ 7,808	¥ 129,879	¥ 121,176	