SONY CORP
Form 20-F
June 25, 2004

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 20-F

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 2004

Commission file number 1-6439

Sony Kabushiki Kaisha

(Exact name of Registrant as specified in its charter)

SONY CORPORATION

(Translation of Registrant s name into English)

JAPAN

(Jurisdiction of incorporation or organization)

7-35, KITASHINAGAWA 6-CHOME, SHINAGAWA-KU,

TOKYO 141-0001, JAPAN
(Address of principal executive offices)

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

Title of each class	Name of each exchange on which registered
American Depositary Shares*	New York Stock Exchange Pacific Stock Exchange Chicago Stock Exchange
Common Stock**	New York Stock Exchange Pacific Stock Exchange Chicago Stock Exchange

* American Depositary Shares evidenced by American Depositary Receipts.
Each American Depositary Share represents one share of Common Stock.

** No par value per share.

Not for trading, but only in connection with the listing of American Depositary Shares pursuant to the requirements of the relevant exchanges.

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

None

(Title of Class)

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

None

(Title of Class)

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

	Outstanding as of	
Title of Class	**March 31, 2004 (Tokyo Time)**	**March 30, 2004 (New York Time)**
Common Stock	926,418,280	
Subsidiary Tracking Stock	3,072,000	
American Depositary Shares		115,546,136

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

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

Item 17 o Item 18. þ

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

The noon buying rate for yen in New York City as certified for customs purposes by the Federal Reserve Bank of New York on June 21, 2004 was 108.57 yen = 1 U.S. dollar.

As of March 31, 2004, Sony Corporation had 1,048 consolidated subsidiaries (including variable interest entities). It has applied the equity accounting method in respect to its 66 affiliated companies.

Table of Contents

Cautionary Statement

Statements made in this annual report with respect to Sony s current plans, estimates, strategies and beliefs and other statements that are not historical facts are forward-looking statements about the future performance of Sony. Forward-looking statements include, but are not limited to, those statements using words such as believe , expect , plans , strategy , prospects , forecast , estimate , project , anticipate , aim , i 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); (vii) the success of Sony s joint ventures and alliances; and (viii) the risk of being able to obtain regulatory approval and successfully form a jointly owned recorded music company with BMG. Risks and uncertainties also include the impact of any future events with material unforeseen impacts.

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

Table of Contents

TABLE OF CONTENTS

Table of Contents

Table of Contents

Item 1. ***Identity of Directors, Senior Management and Advisers***

Not Applicable

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

Not Applicable

Item 3. ***Key Information***

Selected Financial Data

	Year Ended March 31				
	2000	2001	2002	2003	2004
	(Yen in millions, Yen per share amounts)				
Income Statement Data:					
Sales and operating revenue	6,686,661	7,314,824	7,578,258	7,473,633	7,496,391
Operating income	223,204	225,346	134,631	185,440	98,902
Income before income taxes	264,310	265,868	92,775	247,621	144,067
Income taxes	94,644	115,534	65,211	80,831	52,774
Income before cumulative effect of accounting changes	121,835	121,227	9,332	115,519	90,628
Net income	121,835	16,754	15,310	115,519	88,511
Per Share Data of Common Stock*:					
Income before cumulative effect of accounting changes					
Basic	144.58	132.64	10.21	125.74	98.26
Diluted	131.70	124.36	10.18	118.21	93.00
Net income					
Basic	144.58	18.33	16.72	125.74	95.97
Diluted	131.70	19.28	16.67	118.21	90.88
Cash dividends declared					
Interim	12.50	12.50	12.50	12.50	12.50
	(12.01 cents)	(11.15 cents)	(10.07 cents)	(10.50 cents)	(11.37 cents)
Year-end	12.50	12.50	12.50	12.50	12.50
	(11.58 cents)	(10.01 cents)	(9.78 cents)	(10.53 cents)	(11.26 cents)
Depreciation and amortization:**	306,505	348,268	354,135	351,925	366,269
Capital expenditures (additions to fixed assets):	435,887	465,209	326,734	261,241	378,264
Research and development costs:	394,479	416,708	433,214	443,128	514,483

	Year Ended March 31				
	2000	2001	2002	2003	2004
	(Yen in millions, Yen per share amounts)				
Balance Sheet Data:					
Net working capital	861,674	830,734	778,716	719,166	381,140
Long-term debt	813,828	843,687	838,617	807,439	777,649
Stockholders equity	2,182,906	2,315,453	2,370,410	2,280,895	2,378,002
Total assets	6,807,197	7,827,966	8,185,795	8,370,545	9,090,662
Number of shares issued at year-end (thousands of shares of common stock)	453,639	919,617	919,744	922,385	926,418
Stockholders equity per share of common stock*:	2,409.36	2,521.19	2,570.31	2,466.81	2,563.67

	Average***	High	Low	Period-End
	(Yen)			
Yen Exchange Rates per U.S. Dollar:				
Year ended March 31				
2000	110.02	101.53	124.45	102.73
2001	111.65	104.19	125.54	125.54
2002	125.64	115.89	134.77	132.70
2003	121.10	115.71	133.40	118.07
2004	113.07	120.55	104.18	104.18
2003				
December		109.6	106.9	107.1
2004				
January		107.2	105.5	105.8
February		109.6	105.4	109.3
March		112.1	104.2	104.2
April		110.4	103.7	110.4
May		114.3	108.5	110.2
June (through June 21)		111.3	108.6	108.6

The noon buying rate for yen in New York City as certified for customs purposes by the Federal Reserve Bank of New York on June 21, 2004 was 108.57 yen = U.S. 1 dollar.

* Per share data prior to the year ended March 31, 2001 have been adjusted to reflect the two-for-one stock split that took effect on May 19, 2000. However, no adjustment to reflect such stock split has been made to the number of shares issued prior to the year ended March 31, 2001.

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

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

Notes to Selected Financial Data:

1. In January 2003, the Financial Accounting Standards Board (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). For VIEs created or acquired prior to February 1, 2003, Sony adopted the provisions of FIN No. 46 on July 1, 2003, prior to required compliance. Under FIN No. 46, any difference between the net amount added to the balance sheet and the amount of any previously recognized interest in the VIE shall be recognized as a cumulative effect of accounting change. As a result of adopting FIN No. 46, Sony recognized a one-time charge with no tax effect of 2.1 billion yen as a cumulative effect of accounting changes in the consolidated statement of income, and Sony s assets and liabilities increased by 95.3 billion yen and 98.0 billion yen, respectively. These increases were treated as non-cash transactions in the consolidated statements of cash flows. In addition, cash and cash equivalents increased by 1.5 billion yen. In December 2003, the FASB issued a revised version of FIN No. 46 (FIN No. 46R), which replaced FIN No. 46. Sony adopted the provisions of FIN No. 46R upon its issuance, prior to required compliance. The adoption of FIN No. 46R did not have an impact on Sony s results of operations and financial position or in the way Sony had previously accounted for VIEs.

2. In November 2002, the FASB issued Emerging Issues Task Force (EITF) Issue No. 00-21, Accounting for Revenue Arrangements with Multiple Deliverables . Sony adopted EITF Issue No. 00-21 on July 1, 2003. The adoption of EITF Issue No. 00-21 did not have a material impact on Sony s results of operations and financial position as of and for the year ended March 31, 2004.

3. In May 2003, the FASB issued Statement of Financial Accounting Standards (FAS) No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity . Sony adopted FAS No. 150 during the first quarter of the year ended March 31, 2004. The adoption of FAS No. 150 did not have an impact on Sony s results of operations and financial position as of and for the year ended March 31, 2004.

4. In June 2002, the FASB issued FAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities , which nullified EITF Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring) . Sony adopted FAS No. 146 on January 1, 2003. The adoption of this statement did not have a material effect on Sony s results of operations and financial position.

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 3.0 billion yen, 3.4 billion yen and 2.2 billion yen, respectively. Additionally, Sony recorded a one-time non-cash after-tax unrealized gain of 1.1 billion yen in accumulated other comprehensive income in the consolidated balance sheet, as well as an after-tax gain of 6.0 billion yen 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 20.1 billion yen and income before cumulative effect of accounting changes as well as net income for the year ended March 31, 2002 increased by 18.9 billion yen.

7. In June 2000, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position (SOP) 00-2, Accounting by Producers or Distributors of Films . Sony adopted SOP 00-2 retroactive to April 1, 2000. As a result, Sony s net

income for the year ended March 31, 2001 included a one-time, non-cash charge with no tax effect of 101.7 billion yen, primarily to reduce the carrying value of its film inventory.

8. In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 101, Revenue Recognition in Financial Statements . Sony adopted SAB No. 101 in the fourth quarter ended March 31, 2001 retroactive to April 1, 2000. As a result, a one-time non-cash cumulative effect adjustment of 2.8 billion yen was recorded in the income statement directly above the caption of net income for a change in accounting principle. In December 2003, SAB No. 101 was amended by SAB No. 104, Revenue Recognition . The amendment did not have an impact on Sony s results of operations and financial position.

Capitalization and Indebtedness

Not Applicable

Reasons for the Offer

Not Applicable

Risk Factors

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

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

Sony s Electronics and Game segments produce consumer products that compete against products sold by an increasing number of competitors on the basis of factors including price. In order to produce products that appeal to changing and increasingly diverse consumer preferences, and to overcome the fact that a relatively high percentage of consumers already possess products similar to those that Sony offers, Sony s Electronics and Game segments must develop superior technology, anticipate consumer tastes and rapidly develop attractive products. In the Electronics segment, in the face of increasingly intense pricing pressure from Korean and Chinese competitors in a variety of consumer product areas, Sony is focusing its resources on developing, manufacturing and marketing higher value-added products. Examples in both the Electronics and Game segments include displays equipped with proprietary high resolution circuitry systems, devices designed for use with secured media distribution services, optical media devices and new microprocessors and system large scale integration (LSI) for the next generation computer entertainment system and broadband network products. Sony s sales and operating income depend on Sony s ability to continue to develop and offer products that meet consumer preferences at competitive prices.

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

A consumer s decision to purchase products such as those offered by Sony s Electronics, Game, Music and Pictures segments is to a very significant extent discretionary. Accordingly, weakening economic conditions or outlook can reduce consumption in any of Sony s major markets, causing material declines in Sony s sales and operating income. In the fiscal year ended March 31, 2004, 29.6 percent, 28.3 percent and 23.6 percent of Sony s sales and operating revenue were attributable to Japan, the U.S. and Europe, respectively. If economic conditions in Japan, the U.S. and Europe deteriorate, or if the effects of international political and military instability depress consumer confidence, Sony s short- to mid-term sales and profitability may be significantly adversely affected.

Table of Contents

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

Sony s consolidated statements of income are prepared from the local currency-denominated financial results of each of Sony Corporation s subsidiaries around the world which are translated into yen at the average market rate during each financial period. Sony s consolidated balance sheets are prepared using local currency-denominated assets and liabilities and stockholders equity of each of Sony Corporation s subsidiaries around the world which are translated into yen at the market rate at the end of each financial period. A large proportion of Sony s consolidated financial results, assets, liabilities and stockholders equity is accounted for in currencies other than the Japanese yen. For example, only 29.6 percent of Sony s sales and operating revenue in the fiscal year ended March 31, 2004 were originally recorded in Japan. Accordingly, Sony s consolidated results, assets, liabilities and stockholders equity in Sony s businesses that operate internationally, principally in its Electronics, Game, Music and Pictures segments, may be materially affected by changes in the exchange rates of foreign currencies when translating into Japanese yen. In the fiscal years ended March 31, 2001 and 2003, for example, Sony s consolidated operating income prepared on the basis of Generally Accepted Accounting Principles in the U.S. (U.S. GAAP) in yen increased from the preceding year by 1.0 percent and 37.7 percent, respectively; however, if Sony s consolidated operating income had been prepared on a local currency basis, it would have increased by 48 percent and decreased 5 percent in those two fiscal years, respectively (refer to Operating Results in Item 5. *Operating and Financial Review and Prospects*). Operating results on a local currency basis described herein reflect sales and operating revenue and operating income obtained by applying the yen s average exchange rate in the previous fiscal year to local currency-denominated monthly sales, cost of sales, and selling, general and administrative expenses in the current fiscal year. Foreign exchange fluctuations may have a negative impact on Sony s results in the future, especially if the yen strengthens significantly against the U.S. dollar or euro.

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

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

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

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

Sony s businesses, particularly the Electronics and Game segments, compete in markets characterized by ever-shortening product life cycles caused by changing consumer preferences and rapid technological innovation. In order to be profitable in such markets, Sony must continually develop a wide range of new technologies and invest in production capacity to create new products. Examples of such new technologies include a new microprocessor and other system LSIs for the next generation computer entertainment system and for digital consumer electronics and technologies for organic electro-luminescent displays and liquid crystal displays (LCDs). However, Sony may not be able to recover its development costs or production capacity investments in any one of these technologies and its mid-term profitability could be adversely affected as a result.

Moreover, through the implementation of Transformation 60 (see below), Sony plans to continue to expend significant sums on research and development and semiconductor fabrication equipment. Recent examples of such expenditures include an investment for research and development into 65 nanometer semiconductor process technology along with IBM Corporation and Toshiba Corporation and an investment in a joint venture with Samsung Electronics Co., Ltd. (Samsung) to produce 7th generation amorphous thin film transistor (TFT) LCD panels. Sony may not be able to recover these investments, in part or in full, and its mid-term profitability could be adversely affected as a result.

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

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

Since the fiscal year ended March 31, 2004, Sony has been implementing Transformation 60, a three-year program scheduled to end March 31, 2006 that consists of a series of fundamental reforms including strengthening core businesses, increasing investments in research and development and undertaking restructuring initiatives such as a reduction in personnel, withdrawal from selected businesses and implementation of other programs to reduce fixed costs.

Restructuring charges recorded on a consolidated basis for the fiscal years ended March 31, 2002, 2003 and 2004 were 107.0 billion yen, 106.3 billion yen and 168.1 billion yen, respectively. The 168.1 billion yen recorded in the fiscal year ended March 31, 2004 included charges incurred from restructuring activities that were started (but not completed) in previous fiscal years. Sony expects to incur restructuring charges totaling approximately 335 billion yen through the implementation of Transformation 60, including the 168.1 billion yen of restructuring charges incurred in the fiscal year ended March 31, 2004. The details of the restructuring plans for the remaining two fiscal years have yet to be determined in full.

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

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

In the Electronics and Game segments Sony places orders for components, determines production and plans inventory in advance based on its forecast of consumer demand, which is highly volatile and difficult to predict. In the past Sony has experienced both a shortage of semiconductors that caused Sony to be unable to meet demand for its personal computers and AV products as well as a surplus in certain

Table of Contents

semiconductors that resulted in the recording of losses when semiconductor prices fell. Fluctuations in the semiconductor market may cause a shortage of supply of semiconductors and affect Sony s production and/or the cost of goods sold because Sony consumes a tremendous volume of semiconductor parts and components for its products. Sony s profitability may be adversely affected by supply or inventory shortages, delays in cost reductions or inventory adjustments that, as a result of efforts to reduce inventory by temporarily halting production or by reducing the price of goods, will lead to an increase in the ratio of cost of sales to sales. Sony writes down the value of its inventory when components or products have become obsolete, exceed the amount expected to be used or are otherwise recorded at more than net realizable value. Such inventory adjustments have had, and if Sony is not successful in managing its inventory may in the future have, a material adverse affect on Sony s operating income and profitability.

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

Since the Game segment offers a relatively small range of products (PS one hardware, PlayStation 2 hardware and related software) and is dependent upon year-end holiday season demand, factors such as changes in the competitive environment, changes in market conditions, delays in the release of highly anticipated software titles and insufficient supply of hardware at this time of year can negatively impact the financial performance of the segment.

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

Sony s Music and Pictures segments are subject to digital piracy, and this risk grows more acute as new technologies develop.

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

Sony s Music segment is dependent on establishing new artists, and Sony s Music and Pictures segments are subject to increasing prices for talent.

Sony s Music segment is highly dependent on establishing artists that appeal to customers, and the competition with other entertainment companies for such talent is intense. Therefore, if the Music segment is unable to find and establish new talented artists, this segment s sales and operating income may be adversely affected. In addition, with respect to both the Music and Pictures segments, Sony has experienced and may continue to experience significant increases in talent-related spending.

Sony s Pictures segment is subject to labor interruption.

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

Sony s Financial Services segment is subject to variability in claims, valuation losses, and shifts in customers demand and a need for prudent and foresightful Asset Liability Management (ALM) as well as mandatory contributions to a policy holder insurance fund.

Sony s Financial Services segment faces unpredictable increases in insurance claims and shifts in customer demand from more profitable products such as life guarantees to less profitable products such as annuities. This segment also may incur valuation losses if the value of securities purchased for investment purposes decreases. In addition, if it fails to conduct ALM in a prudent and foresightful manner to pursue optimal combination of possible risks and expected returns on investment assets and underwriting risks on insurance policy benefits, Sony s Financial Services segment may not be able to keep providing competitive products and services to customers on a long-term basis. Sony s Financial Services segment is also subject to mandatory contributed reserves for the Life Insurance Policyholders Protection Corporation of Japan (PPC). The PPC was established in 1998 to provide financial support to insolvent life insurance companies, and all life insurers in Japan, including Sony Life Insurance Co., Ltd. (Sony Life), are members of the PPC and are subject to assessment by the PPC based on their respective share of insurance industry premiums and policy reserves. Since some life insurers have become insolvent since 1998, the PPC s financial resources have already been reduced because it has had to provide financial support to those companies. If there are further bankruptcies of life insurers, solvent life insurers including Sony Life may be required to contribute additional financial resources. Sony Life s estimated required future contribution based on the assessments made by the PPC is incorporated in other expenses in Sony Life s statements of income and long-term liabilities in its balance sheets.

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

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

Sony s cooperation and alliances with, and strategic investments in, third parties may not produce successful results.

Sony increasingly relies on alliances, joint ventures and strategic investments, including investments in such joint ventures as Sony Ericsson Mobile Communications, AB (Sony Ericsson), S.T. Liquid Crystal Display Corporation (ST-LCD) and other companies, in order to develop and introduce new products and services, mitigate the burden of substantial investments and achieve operating efficiencies through cooperation. In April 2004, Sony established a joint venture in partnership with Samsung for the production of 7th generation amorphous TFT LCD panels. In December 2003, Sony also announced that it has signed a binding letter of intent to form a jointly-owned recorded music company with Bertelsmann AG, to be called Sony BMG. The formation of the joint venture is dependent upon regulatory approval in the United States and the European Union. If this or any alliances and joint ventures cannot be implemented due to lack of regulatory approval, Sony may not be able to achieve its objectives. In addition, if, in the case of existing alliances, joint ventures and strategic investments, Sony and its partners are not able to reach their common financial objectives successfully, Sony s financial performance may be adversely affected. Sony s financial performance may also be temporarily adversely affected by the establishment of those alliances, joint ventures and strategic investments, even if Sony and its partners are on a course to achieve their common objectives. Recent examples of how Sony s financial performance has been adversely affected in the course of these types of relationships are the equity in net loss of Sony Ericsson incurred in the fiscal year ended March 31, 2003, totalling 20.8 billion yen (Sony Ericsson turned profitable in the fiscal year ended March 31, 2004), and the equity in net loss of Crosswave

Table of Contents

Communications Inc. amounting to 1.4 billion yen in the fiscal year ended March 31, 2004, which commenced reorganization proceedings under the Corporate Reorganization Law of Japan.

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

Sony headquarters, some of Sony s major data centers and many of Sony s most advanced device manufacturing facilities, including those for semiconductors, are located in Japan, where the possibility of disaster or damage from earthquake is generally higher than in other parts of the world. In addition, Sony s offices and facilities, including those used for research and development, material procurement, manufacturing, logistics, sales and services are located throughout the world and are subject to possible destruction, temporary stoppage or disruption as a result of any number of unexpected events. Furthermore, as network and information systems become more important to Sony s operating activities, network and information system shutdowns caused by unforeseen events such as power outages, disasters, hardware or software defects and computer viruses pose increasing risks, as do possible misappropriation, misuse, leakage, falsification, and disappearance of internal databases, including customer and vendor data.

Judging from the experience of other companies, it is possible that Sony could be exposed to significant monetary liability if such risks were to materialize, and it is also possible that such events could harm Sony s reputation and credibility. Although Sony continues to take precautions against such unforeseen risks, such as by maintaining backup and other redundancies for major data centers and undertaking efforts to educate operators and administrators who have access to databases about appropriate ways to protect such information, these measures may be inadequate, and Sony may be unable to avoid or prevent such events. If such an event were to occur, it could impair Sony s operational activities, generate expenses relating to physical or personal damage, or hurt Sony s brand image.

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

Sony products, such as software (including software for mobile phone handsets) and electronic devices including semiconductors, are becoming increasingly sophisticated and complicated as rapid advancements in technologies occur and demand increases for digital equipment. At the same time product quality and liability issues present greater risks. In the first half of the fiscal year ended March 31, 2002, Sony recalled products in the mobile phone handset business for quality reasons, which resulted in increased after-sales service expenses of 18.6 billion yen. Sony s efforts to manage the rapid advancements in technologies and increased demand, as well as control product quality, may not be successful and if they are not, Sony may incur expenses such as those for product recalls, service and lawsuits and Sony s brand image and reputation for quality products may suffer.

Sony may be adversely affected by its employee benefit obligations.

Sony recognizes an unfunded pension obligation (in an amount equal to (i) its Projected Benefit Obligation (PBO) less (ii) the fair value of plan assets and accrued pension and severance costs) as a pension cost in a systematic and gradual manner over employees average remaining service periods as required under FAS No. 87, Employers Accounting for Pensions . Any decrease of pension asset value due to low return from investments or increase of PBO due to a lower discount rate may increase unfunded pension obligations, resulting in an increase in pension expenses recorded as cost of sales or as a selling, general and administrative expense. Refer to Note 13 of Notes to Consolidated Financial Statements for more information regarding Sony s pension and severance plans. Also refer to Critical Accounting Policies in Item 5. *Operating and Financial Review and Prospects* .

Most pension assets and liabilities recognized on Sony s consolidated balance sheets relate to Japanese plans, which are subject to the Japanese Welfare Pension Insurance Law pursuant to which Sony is required to meet certain financial criteria including periodic actuarial revaluation and annual settlement of gain or loss of the plan. In case of a plan deficit, that is in excess of the actuarial reserve required by the law over the fair value of pension assets, Sony may be required to make an additional contribution to the plan, which would reduce consolidated cash flow.

Sony may be accused of infringing on others intellectual property rights and may not be able to continue to obtain necessary licenses.

Sony s products incorporate a wide variety of technologies. Claims could be asserted against Sony that such technology infringes intellectual property owned by others, and the outcome of any such claim would be uncertain. In addition, many of Sony s products are designed to include intellectual property licensed from third parties. Based upon past experience and industry practice, Sony believes that it will be able to obtain or renew licenses relating to various intellectual properties useful in its business that it needs in the future; however, such licenses may not be available at all or on acceptable terms.

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

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

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

Sony is subject to environmental and occupational health and safety regulations relating to matters such as reductions or prohibitions in the use of harmful substances, comprehensive compliance and risk management practices in manufacturing activities and products, decreases in the level of standby power of certain products, protection of natural resources and remediation as a result of certain manufacturing operations and the recycling of products, batteries and packaging materials. The European Parliament and the Council of the European Union have published directives on waste electrical and electronic equipment and on the restriction of the use of certain hazardous substances in electrical and electronic equipment. These directives will require electronics producers after August 2005 to bear the cost of collection, treatment, recovery and safe disposal of future products from end-users and to ensure after June 2006 that new electrical and electronic equipment does not contain specified hazardous substances. While the cost of these directives to Sony cannot be determined before regulations are adopted in individual member states, it may be substantial. In the event it is determined that Sony has not complied in a material way with certain environmental laws and regulations, Sony may incur remediation cost or sustain injury to its brand image. Sony s activities also may be limited if Sony is unable to comply with such regulations, which could adversely affect Sony s results.

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

A substantial portion of Sony s activities are conducted outside Japan, including in developing and emerging markets. Sony operates its manufacturing subsidiaries in 16 countries and its sales subsidiaries in 43 countries. Countries where Sony manufactures its principal products are Japan, Malaysia, China, the U.S., the U.K., Singapore, Spain and Mexico. Sony seeks advantages from international operations, such as low-cost production and the mid- to long-term potential of consumer markets in China, particularly in the Electronics and Game segments, and the potential prolonging of product life cycles in the current hardware business through sales to markets in Eastern Europe, the Middle East and East Asia (excluding Japan) in the Game segment.

Table of Contents

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

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

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

American Depositary Share (ADS) holders have fewer rights than shareholders and may not be able to enforce judgments based on U.S. securities laws.

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

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

Item 4. *Information on the Company*

History and Development of the Company

Sony Corporation, the ultimate parent company of the Sony Group, was established in Japan in May 1946 as Tokyo Tsushin Kogyo Kabushiki Kaisha, a joint stock company (*Kabushiki Kaisha*) under the Japanese Commercial Code (Shoho). In January 1958, it changed its name to Sony Kabushiki Kaisha (Sony Corporation in English). In December 1958, Sony Corporation was listed on the Tokyo Stock Exchange (the TSE). In June 1961, Sony Corporation issued American Depositary Receipts (ADRs) in the U.S. In March 1968, Sony Corporation established in Japan CBS/ Sony Records Inc., currently Sony Music Entertainment (Japan) Inc. (SMEJ), as a 50:50 joint venture company between Sony Corporation and CBS Inc. in the U.S. In January 1988, SMEJ became a wholly-owned subsidiary of Sony Corporation. In September 1970, Sony Corporation was listed on the New York Stock Exchange (the NYSE). In August 1979, Sony Corporation established in Japan Sony Prudential Life Insurance Co., Ltd., currently Sony Life Insurance Co., Ltd. (Sony Life), as a 50:50 joint venture company between Sony Corporation and The Prudential Insurance Company of America. In March 1996, Sony Life became a wholly-owned subsidiary of Sony Corporation. In July 1984, Sony Magnescale Inc., a subsidiary of Sony Corporation and currently Sony Precision Technology Inc., was listed on the Second Section of the TSE. In July 1987, Sony Chemicals Corporation, a subsidiary of Sony Corporation, was listed on the Second Section of the TSE. In January 1988, Sony Corporation acquired CBS Records Inc., a music business division of CBS Inc. in the U.S. In January 1991, CBS Records Inc. changed its name to Sony Music Entertainment Inc. (SMEI). In November 1989, Sony Corporation acquired Columbia Pictures Entertainment, Inc. in the U.S. In August 1991, Columbia Pictures Entertainment, Inc. changed its name to Sony Pictures Entertainment Inc. (SPE). In November 1991, SMEJ was listed on the Second Section of the TSE. In November 1993, Sony established Sony Computer Entertainment Inc. (SCEI) in Japan. In January 2000, acquisition transactions by way of exchanges of stock, whereby SMEJ, Sony Chemicals Corporation, and Sony Precision Technology Inc. became wholly-owned subsidiaries of Sony Corporation, were completed. In June 2001, Sony Corporation issued shares of subsidiary tracking stock in Japan, the economic value of which is intended to be linked to the economic value of Sony Communication Network Corporation (SCN). In October 2001, Sony Corporation established Sony Ericsson Mobile Communications, AB (Sony Ericsson), as a 50:50 joint venture company between Sony Corporation and Telefonaktiebolaget LM Ericsson of Sweden. In October 2002, Aiwa Co., Ltd. (Aiwa) became a wholly-owned subsidiary of Sony Corporation. In December 2002, Sony Corporation merged with Aiwa. In June 2003, Sony Corporation adopted the Company with Committees system in line with the revised Japanese Commercial Code (refer to Board Practices in Item 6. *Directors, Senior Management and Employees*). In April 2004, Sony Corporation established Sony Financial Holdings Inc. (SFH) in Japan. In April 2004, S-LCD Corporation, a joint venture between Sony Corporation and Samsung Electronics Co., Ltd. of Korea, was established in Korea.

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

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

Principal Capital Investments

In the fiscal years ended March 31, 2002, 2003 and 2004, Sony s capital expenditures (additions to fixed assets on the balance sheets) were 326.7 billion yen, 261.2 billion yen and 378.3 billion yen, respectively. Regarding a breakdown of principal capital expenditures and divestitures (including interests in other companies), refer to Item 5. *Operating and Financial Review and Prospects* . Sony invested 175 billion yen in the semiconductor business during the fiscal year ended March 31, 2004. 190 billion yen will be invested in the semiconductor business in the fiscal year ending March 31, 2005. To finance capital expenditures for the development and manufacturing of semiconductors such as Cell, a highly-advanced processor that will be embedded in a broad range of next-generation digital consumer electronics products, and key devices, including display devices, Sony raised 250 billion yen through the issuance of euro yen zero coupon convertible bonds in December 2003. Refer to Property, Plant and Equipment below for a geographic distribution of these investments.

Table of Contents

Business Overview and Organizational Structure

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

Name of company	Country of incorporation	(As of March 31, 2004) Percentage owned
Sony EMCS Corporation	Japan	100.0
Sony Marketing (Japan) Inc.	Japan	100.0
Sony Computer Entertainment Inc.	Japan	99.7*
Sony Life Insurance Co., Ltd.	Japan	100.0
Sony Americas Holding Inc.	U.S.A.	100.0
Sony Corporation of America	U.S.A.	100.0
Sony Electronics Inc.	U.S.A.	100.0
Sony Computer Entertainment America Inc.	U.S.A.	99.7*
Sony Music Entertainment Inc.	U.S.A.	100.0
Sony Pictures Entertainment Inc.	U.S.A.	100.0
Sony Europe Holding B.V.	Holland	100.0
Sony Europe G.m.b.H.	Germany	100.0
Sony Computer Entertainment Europe Ltd.	U.K.	99.7*
Sony Global Treasury Services Plc	U.K.	100.0
Sony Holding (Asia) B.V.	Holland	100.0
Sony Electronics Asia Pacific Pte. Ltd.	Singapore	100.0

* On April 1, 2004, Sony Computer Entertainment Inc., Sony Computer Entertainment America Inc. and Sony Computer Entertainment Europe Ltd. became wholly owned subsidiaries of Sony Corporation.

In the Electronics segment, Sony is engaged in the development, design, manufacture, and sale of various kinds of electronic equipment, instruments, and devices for consumer and professional markets. Sony s principal manufacturing facilities are located in Japan, Malaysia, China, the U.S., the U.K., Spain and Mexico, and its products are marketed by sales subsidiaries and unaffiliated local distributors as well as direct sales via the Internet, throughout the world. In addition to internationalizing its production operations, Sony has been promoting the transfer of research and development activities and management functions overseas to bring its overseas operations into closer proximity to local communities and markets.

In the Game segment, Sony develops, produces, manufactures, markets, distributes, licenses and publishes home-use entertainment hardware and related software. This business is principally conducted through SCEI in Japan. Sony Computer Entertainment America Inc. (SCEA) in the U.S. and Sony Computer Entertainment Europe Ltd. (SCEE) in Europe are both wholly-owned subsidiaries of SCEI.

In the Music segment, Sony is engaged in the development, production, manufacture, marketing and distribution of recorded music and music videos in a variety of commercial and electronic formats and across all musical genres, for the world outside of Japan through SMEI and in Japan through SMEJ.

In the Pictures segment, Sony is engaged in the development, production, marketing, distribution, and broadcasting of image-based software, including film, video, television, and new digital entertainment technologies, principally through SPE.

In the Financial Services segment, Sony conducts insurance operations primarily through Sony Life, a Japanese life insurance subsidiary, and Sony Assurance Inc. (Sony Assurance), a Japanese non-life insurance subsidiary. Sony is engaged in a leasing and credit financing business in Japan through Sony Finance International Inc. (Sony Finance). Sony also conducts an Internet-based banking business in Japan through Sony Bank Inc. (Sony Bank), which is an 80 percent directly owned subsidiary of SFH. On April 1, 2004, Sony established SFH by separating a part of Sony Corporation. SFH, which is a

Table of Contents

holding company of Sony Life, Sony Assurance and Sony Bank, will integrate varied financial services including savings and loans, and offer individual customers high added-value products and high-quality services.

In the Other segment, Sony is engaged in an in-house oriented information system service business in Japan, an advertising agency business in Japan, an Internet-related service business mainly in Japan, and an Integrated Circuit (IC) card business in Japan.

Products and Services

At the beginning of the fiscal year ended March 31, 2004, Sony partly realigned its business segment configuration. In the Other segment, expenses incurred in connection with the creation of a network platform business have been transferred out of the Other segment and reclassified as unallocated corporate expenses, because the expected future benefits of this business will be spread across the Sony Group. In the Music segment, certain non-core businesses of SMEJ such as media, animation, character and cosmetics, were transferred to the newly-established Sony Culture Entertainment, Inc. (SCU) and SCU was classified in the Other segment. In accordance with these realignments, results for the previous fiscal years have been reclassified to conform to the presentation for the fiscal year ended March 31, 2004.

At the beginning of the fiscal year ended March 31, 2004, Sony partly realigned its product category configuration in the Electronics segment. Accordingly, results of the previous years have been reclassified. The primary changes are as follows:

Main Product	Previous Product Category	New Product Category
Set-top box	Televisions	Video
Computer display	Information and Communications	Televisions
LCD television	Information and Communications	Televisions
CRT	Components	Televisions

Table of Contents

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

	Year Ended March 31		
	2002	**2003**	**2004**
		(Yen in millions)	
Electronics			
Audio	747,469	682,517	623,582
	(9.9)	(9.1)	(8.3)
Video	847,311	851,064	948,111
	(11.2)	(11.4)	(12.6)
Televisions	984,290	950,166	917,207
	(13.0)	(12.7)	(12.2)
Information and Communications	998,773	836,724	834,757
	(13.2)	(11.2)	(11.1)
Semiconductors	182,276	204,710	253,237
	(2.4)	(2.7)	(3.4)
Components	511,579	527,782	623,799
	(6.8)	(7.1)	(8.3)
Other	500,852	490,350	557,707
	(6.6)	(6.6)	(7.4)
Segment Total	4,772,550	4,543,313	4,758,400
	(63.0)	(60.8)	(63.5)
Game	986,529	936,274	753,732
	(13.0)	(12.5)	(10.1)
Music	541,418	512,908	487,457
	(7.1)	(6.9)	(6.5)
Pictures	635,841	802,770	756,370
	(8.4)	(10.7)	(10.1)
Financial Services	480,190	509,398	565,752
	(6.3)	(6.8)	(7.5)
Other	161,730	168,970	174,680
	(2.1)	(2.3)	(2.3)
Sales and operating revenue	7,578,258	7,473,633	7,496,391

Notes:

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

In the third quarter beginning October 1, 2003, regarding Sony Life, the recognition method of insurance premiums received on certain products was changed from being recorded as revenues to being offset against the related provision for future insurance policy benefits, reducing revenue in the Financial Services segment in the fiscal year ended March 31, 2004, by 30.8 billion yen. This change did not have a material effect on operating income.

Electronics

Audio:

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

Video:

Video includes video cameras, digital still cameras, video decks, DVD-Video players/recorders, and set-top boxes such as digital broadcasting reception systems.

Televisions:

Televisions includes televisions incorporating cathode ray tubes (CRTs), projection televisions, plasma televisions, liquid crystal displays (LCDs) televisions, computer displays, and CRTs.

Information and Communications:

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

This category contained the results of Sony s mobile phone handset business until the end of September 2001. On October 1, 2001, the mobile handset business was transferred to Sony Ericsson leaving only sales of mobile handsets manufactured by Sony for Sony Ericsson to appear in the Other category of Electronics. Sales figures for past fiscal years have not been restated in either category.

Semiconductors:

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

Components:

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

Other:

Other includes Aiwa products which was merged into Sony Corporation as of December 1, 2002, sales to outside customers by Sony EMCS Corporation (Sony EMCS), and products and services which are not included in the above categories.

Sales of mobile phone handsets manufactured at Sony EMCS for Sony Ericsson have been recorded in this category since October 1, 2001.

Game

SCEI develops, produces, manufactures, markets and distributes PlayStation, PS one and PlayStation 2 hardware and related software in Japan, and is developing the next-generation entertainment system. SCEA and SCEE market and distribute PlayStation, PS one and PlayStation 2 hardware, and develop, produce, manufacture, market and distribute related software in the U.S. and Europe. SCEI, SCEA and SCEE enter into licenses with third-party software developers.

Music

SMEI and SMEJ produce recorded music and music videos through contracts with many artists worldwide in all musical genres. SMEI and SMEJ produce, manufacture, market and distribute CDs, MDs, DVDs, Super Audio CDs, and pre-recorded audio and video cassettes and produce and manufacture CD-ROMs and DVD-ROMs.

The Music segment has an extensive and geographically diversified software manufacturing capacity, with plants in the U.S., Austria, Japan, Brazil, Australia, India, China, Canada, Hong Kong, Chile and Mexico. Software is manufactured for the Music segment, the Game segment, the Pictures segment and third parties. In addition, the Music segment distributes digital music product through online music services and other emerging digital formats.

Pictures

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

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

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

Sony Pictures Digital operates SPE s digital production, online distribution, and broadband services including Sony Online Entertainment, Sony Pictures Imageworks, Sony Pictures Animation and Sony Pictures Digital Networks.

SPE also manages the studio facility, Sony Pictures Studios, which includes post production facilities, at SPE s world headquarters in Culver City, California. A second studio facility that was owned and operated by SPE, The Culver Studios, was sold by SPE in April 2004, and SPE is leasing back a portion of this facility for a two-year period.

Financial Services

The Financial Services segment includes Sony Life, which underwrites insurance policies, primarily for individual life insurance products in Japan, and sells non-life insurance products provided by Sony Assurance; Sony Assurance, which conducts an individual automobile and medical insurance business in Japan; Sony Bank, which conducts an Internet-based banking business, including personal loans, mortgage loans, investment trusts, and deposits, for individual customers in Japan; and Sony Finance, which conducts a leasing and credit financing business in Japan, focusing on a new credit card business for Internet shopping, utilizing a non-contact IC card technology developed by Sony.

Other

The Other segment is mainly comprised of an in-house oriented information system service business in Japan, an advertising agency business in Japan, an Internet-related service business mainly in Japan, a retail seller of imported general merchandise in Japan, an in-house facilities management business in Japan and an IC card business.

Sales and Distribution

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

	Year Ended March 31		
	2002	2003	2004
		(Yen in millions)	
Japan	2,248,115	2,093,880	2,220,747
	(29.7)	(28.0)	(29.6)
United States	2,461,523	2,403,946	2,121,110
	(32.5)	(32.2)	(28.3)
Europe	1,609,111	1,665,976	1,765,053
	(21.2)	(22.3)	(23.6)
Other Areas	1,259,509	1,309,831	1,389,481
	(16.6)	(17.5)	(18.5)
Sales and operating revenue	7,578,258	7,473,633	7,496,391

Electronics

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

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

Sales in the Electronics segment are particularly dependent on seasonality, in addition to the timing of new product introductions and economic conditions of each country. Sales for the third quarter ending December 31 of each fiscal year are generally higher than other quarters of the same fiscal year due to demand in the year-end holiday season.

Japan:

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

United States:

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

Europe:

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

Other Areas:

In overseas areas other than the U.S. and Europe, Sony s electronics products and services are marketed through sales subsidiaries including Sony Corporation of Hong Kong Limited, Sony Gulf

FZE in the United Arab Emirates, Sony Electrónicos de México, S.A. de C.V., Sony of Canada Ltd., and Sony Australia Limited.

Game

SCEI, SCEA, and SCEE market and distribute PlayStation, PS one, and PlayStation 2 entertainment hardware and related software.

Sales in the Game segment are particularly dependent on holiday season demand, in addition to the timing of the introduction of attractive software.

Music

SMEI and SMEJ produce, manufacture, market, and distribute CDs, MDs, DVDs, Super Audio CDs, and pre-recorded audio and video software.

SMEI and its affiliates conduct business in countries other than Japan under *Columbia Records Group*, *Epic Records Group*, *Sony Classical*, *Legacy Recordings* and other labels.

SMEJ conducts business in Japan under *Sony Records*, *Epic Records*, *Ki/oon Records*, *SMEJ Associated Records*, *Defstar Records*, and other labels.

In May 2004, Sony officially launched the Connect music store, a digital music downloading service. The Connect music store offers consumers music product from SMEI as well as other major and independent labels and independent artists.

Pictures

SPE, with global operations in 67 countries, generally retains all rights relating to the worldwide distribution of its internally produced motion pictures, including rights for theatrical exhibition, videocassette and DVD distribution, pay and free television exhibition and other markets. SPE also acquires distribution rights to motion pictures produced by other companies or jointly produces films with other studios or production companies, and these rights may be limited to particular geographic regions or specific forms of media. SPE uses its own distribution service business, Sony Pictures Releasing, for the U.S. theatrical release of its films and those acquired from and produced by others.

Outside the U.S., SPE generally distributes and markets its films through one of its Columbia TriStar Film Distributors International subsidiaries. However, in certain countries, SPE has joint distribution arrangements with other studios or arrangements with independent local distributors.

SPE s theatrical releasing strategy focuses on offering a diverse slate of films with a mix of genres, talent and budgets. For the fiscal year ending March 31, 2005, 39 films are currently slated for release by SPE, including seven films under the Columbia banner, six films under the Screen Gems or TriStar banner, 18 Sony Pictures Classics releases and eight Revolution Studios releases. SPE has a motion picture library of over 4,000 feature films, including 12 with Best Picture Academy Awards®. Currently, SPE is converting its library to a digital format and to date nearly 1,700 titles (including motion picture, television and acquired product) have been converted. In addition, SPE and four other motion picture studios are equal investors in Movielink LLC., an online movie download service offering feature films on a pay-per-view basis.

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

SPE produces original programming in twelve different languages around the world in conjunction with local partners. This programming, along with SPE s library of television programming and motion

Table of Contents

pictures, is licensed to affiliated and independent stations in the U.S., and to international television stations and other broadcasters throughout the world. In the U.S., SPE, jointly with Liberty Media Corporation, owns and operates the cable channel, GSN (formerly Game Show Network). SPE also has worldwide broadcasting investments in over 35 international channels.

Financial Services

Sony Life conducts a life insurance business primarily in Japan, using Lifeplanner financial consultants to serve individual customers. As of March 31, 2004, Sony Life employed 4,212 such consultants. Sony Life maintains an extensive service network including 85 Lifeplanner branch offices, 26 regional sales offices, and 2,028 independent agencies in Japan. In addition, aiming to apply Sony Life s insurance expertise in countries other than Japan, Sony Life Insurance (Philippines) Corporation has operated in the Philippines since November 1999.

Sony Assurance has conducted a non-life insurance business since October 1999. Using a direct marketing model that Sony believes is tailored to today s networked society, the company is working to build a new type of relationship between an insurer and its customers. Sony Assurance principally sells automobile and medical insurance directly to individuals by telephone and over the Internet.

Sony Finance conducts a leasing business for corporations, and a consumer financing business including My Sony Card , a credit card for individual customers, through Sony s electronic retailers and other affiliated partners. Sales staff are posted at ten main branch offices and three customer centers in Japan.

Sony Bank has conducted banking operations since June 2001 in Japan, and provides its services via the Internet 24 hours a day, 365 days a year as a general rule. By using the MONEYKit tool, account holders can invest and manage assets according to their life plans over the Internet.

Overseas Operations

Sony has pursued a long-term strategy of actively expanding its production capabilities in each region following a general policy of seeking to manufacture its products in the markets in which they are sold. As of March 31, 2004, Sony operated 18 manufacturing facilities in Japan, five in the U.S., seven in Europe, and 17 in non-Japan Asia and other geographic areas (Other Areas) in the Electronics segment. In addition, Sony operated two CD manufacturing facilities in Japan, two in the U.S., one in Europe, and eight in Other Areas in the Music segment.

In order to be less susceptible to the impact of foreign exchange rate fluctuations and to reduce inventory and cost, Sony seeks to localize its overseas production, research and development, design, materials and parts procurement, and management.

Sources of Supply

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

However, the recent price increase of petroleum due to the political instability of the Middle East after the war in Iraq in the spring of 2003 and also the price increases of other raw materials, such as steel, aluminium, rare metals, and resin, caused mainly by the strong demand from the Chinese market may affect Sony s cost of goods sold because Sony consumes a tremendous volume of such raw materials for its products.

Table of Contents

After-Sales Service

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

In line with the industry practice of the electronics and game businesses, almost all of Sony s products sold in Japan carry a warranty, generally for a period of one year from the date of purchase, for repairs, free of charge, for malfunctions occurring in the course of ordinary use. In the case of broadcast-and professional-use products, Sony maintains support contracts with customers in addition to warranties. Overseas warranties are generally provided for various periods of time depending on the product and the area where it is marketed.

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

Patents and Licenses

Sony has a number of Japanese and foreign patents relating to its products. Sony is licensed to use a number of patents owned by others, covering a wide range of products. Certain licenses are important to Sony s business, such as that for optical disc related products. Sony products that employ DVD-Video player functions, including PlayStation 2 hardware, are substantially dependent upon certain patents licensed by MPEG LA LLC, Dolby Laboratories Licensing Corporation and Nissim Corp., which cover technologies essential to DVD specification. Sony considers its overall license position beneficial to its operations. While Sony believes that its various proprietary intellectual property rights are important to its success, it believes that neither its business as a whole nor any business segment is materially dependent on any particular patent or license, or any particular group of patents or licenses, except as set forth above.

Competition

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

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

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

Success in the Music segment is dependent to a large extent upon the artistic and creative abilities of employees and outside talent and is subject to the vagaries of public taste. Sony s future competitive position depends on its continuing ability to attract and develop talent that can achieve a high degree of public acceptance. In terms of music distribution, it is important to make appropriate investments in new technologies for high-quality and secure music distribution while maintaining customer convenience.

In the Pictures segment, SPE faces intense competition from other major motion picture studios and, to a lesser extent, from independent production companies, to attract the attention of the movie-going public worldwide and to obtain exhibition outlets and optimal release dates for its products. SPE must also compete to obtain story rights and talent, including writers, actors, directors and producers, which are essential to the success of SPE s products. Competition in television production, distribution, and syndication is also intense because available broadcast time is limited and the audience is increasingly

Table of Contents

fragmented among broadcast networks, cable, and other independent television stations both in the U.S. and internationally. Furthermore, broadcast networks are increasingly producing their own shows internally. This competitive environment has resulted in fewer opportunities to produce shows for networks and a shorter lifespan for ordered shows that do not immediately achieve favorable ratings.

In the Financial Services segment, it is critical for Sony Life, Sony Assurance and Sony Bank to maintain customer confidence because some financial institutions in Japan have become insolvent in recent years. To be credible and competitive in the financial services market, it is important to offer attractive rates of return on customer investments. In addition, in order to meet diversifying customer demand, it is critical to provide attractive services to customers through unique marketing channels, such as Lifeplanner financial consultants at Sony Life, and direct communications by telephone and over the Internet at Sony Assurance and Sony Bank. Sony Finance faces competitive pressure to achieve a leading position in the new arena of secured payment systems on the Internet by utilizing new technology.

In the Other segment, SCN faces competition in Japan from many existing, large companies and new entrants to the market. Telecommunication companies that possess a large Internet-ready infrastructure and other entrants that compete solely with respect to price have created a market in which competitive price reductions are the norm. Rapid technological advancement has created many new opportunities but has also increased the rate at which new and more efficient services must be brought to market to earn customer approval. Customer price elasticity is high, and users are able to change Internet service providers with increasing ease. The penetration of mobile Internet services provided solely by telecommunication companies poses an alternative to the home-centric Internet service provided by SCN.

Government Regulations

Sony s business activities are subject to various governmental regulations in countries in which it operates, including regulations relating to business/investment approvals, import and export regulations including customs and export control, antitrust, intellectual property, consumer and business taxation, exchange controls, and environmental and recycling requirements. In Japan, insurance and banking businesses are subject to approvals from the Financial Services Agency. In addition, satellite broadcasting and telecommunication businesses are subject to approvals from the Ministry of Public Management, Home Affairs, Posts and Telecommunications. Sony is also subject to environmental and occupational health and safety regulations in the jurisdictions in which it operates, particularly those in which it has manufacturing, research, or similar operations in its Electronics and Game businesses. Refer to Risk Factors in Item 3. *Key Information* .

In October 2001, SCEE temporarily halted shipments of PS one game consoles destined for the European market after Dutch authorities determined levels of cadmium were above the limits allowed under Dutch regulations. PS one shipments were resumed after confirming that there was no health risk to users during use and Sony worked closely with Dutch authorities to replace non-compliant components to meet their standards. Sony further addressed this issue in PS one game consoles by initiating its own program to inspect all Sony products and thereby discovered a limited number of other occurrences of potentially harmful substances. In order to prevent problems occurring with cadmium and similar chemical substances in the future, Sony initiated a comprehensive program that included revisions to specific Sony policies and standards such as its Management Regulations for the Environment-related Substances to be Controlled which are included in Parts and Materials , and tightening its management and control systems including the Green Partner Environmental Quality Approval Program , which identifies specific requirements applicable to Sony s suppliers. On a consolidated basis, Sony recorded a total of approximately 10 billion yen in expenses, including costs of rework and other, investments in equipment, costs of revising and managing policies and programs including the above mentioned policy and program, for the two fiscal years ended March 31, 2002 and March 31, 2003.

Table of Contents

Property, Plant and Equipment

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

The following table sets forth information as of March 31, 2004 with respect to plants for the manufacturing of products for the Electronics segment and entertainment hardware for the Game segment with floor space of more than 500,000 square feet:

Location	Approximate floor space	Principal products manufactured
	(square feet)	
In Japan:		
Nagasaki (Sony Semiconductor Kyushu Corporation Nagasaki TEC and SCEI)	2,232,000	Semiconductors
Kokubu, Kagoshima (Sony Semiconductor Kyushu Corporation Kokubu TEC)	1,141,000	Semiconductors
Kohda, Aichi (Sony EMCS Corporation Kohda TEC)	953,000	Video cameras, digital still cameras, Memory Sticks, and printers
Inazawa, Aichi (Sony EMCS Corporation Inazawa TEC)	865,000	CRTs and televisions
Ichinomiya, Aichi (Sony EMCS Corporation Ichinomiya TEC)	833,000	Televisions, display monitors, and digital still cameras
Kanuma, Tochigi (Sony Chemicals Corporation)	824,000	Magnetic tapes, adhesives, and electronic components
Tochigi (Sony Tochigi Corporation)	609,000	Magnetic and optical storage media and batteries
Kisarazu, Chiba (Sony EMCS Corporation Kisarazu TEC)	601,000	DVD Recorders, PCs, and personal digital assistants and entertainment hardware
Koriyama, Fukushima (Sony Fukushima Corporation)	580,000	Batteries
Kosai, Shizuoka (Sony EMCS Corporation Kosai TEC)	561,000	Broadcast- and professional-use video equipment
Minokamo, Gifu (Sony EMCS Corporation Minokamo TEC)	525,000	Video cameras, digital still cameras, personal digital assistants, mobile phones, and modules

Table of Contents

Location	Approximate floor space	Principal products manufactured
	(square feet)	
Overseas:		
Pittsburgh, Pennsylvania, U.S.A. (Sony Electronics Inc.)	2,820,000	Televisions and CRTs
San Diego, California, U.S.A. (Sony Electronics Inc.)	1,249,000	CRTs
Penang, Malaysia (Sony EMCS (Malaysia) Sdn. Bhd. PG TEC)	988,000	Audio equipment and data storage systems
Tijuana, Mexico (Sony de Tijuana Este, S.A. de C.V.)	935,000	Televisions, computer displays, and audio equipment
Jurong, Singapore (Sony Electronics (Singapore) Pte. Ltd.)	838,000	CRTs
Dothan, Alabama, U.S.A. (Sony Magnetic Products Inc. of America)	809,000	Magnetic tape products and polarized film for LCD
Bangi, Malaysia (Sony EMCS (Malaysia) Sdn. Bhd. KL TEC)	797,000	DVD players, VTRs, and televisions
Bridgend, Wales, U.K. (Sony Manufacturing Company U.K.)	752,000	CRTs and TV components
Pencoed, Wales, U.K. (Sony Manufacturing Company U.K.)	707,000	Televisions, broadcast cameras, and professional-use displays
Wuxi, China (Sony Electronics (Wuxi) Co., Ltd. and Sony (China) Ltd.)	684,000	Batteries, televisions, and PCs
Nuevo Laredo, Mexico (Sony Electronics Inc.)	608,000	Magnetic storage media and batteries
Barcelona, Spain (Sony Espana, S.A.)	566,000	Televisions, TV components, and projectors
Huizou, China (Sony Precision Devices (Huizou) Co., Ltd.)	526,000	Optical pickups and DVD players

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

Although doing so will not require expansion of the floor space at the Nagasaki facility owned by Sony Semiconductor Kyushu Corporation and SCEI, Sony plans to increase its semiconductor manufacturing capacity at this facility. This capacity increase constitutes a portion of Sony s 120 billion yen planned investment during the fiscal year ending March 31, 2005, in semiconductor fabrication equipment built at the 65 nanometer level of process technology. The chips made on the equipment purchased will be some of the most highly advanced on the market, and will include the new microprocessor for the broadband era, code-named Cell, as well as other system large scale integration (LSI), for use in the next generation computer entertainment system and a variety of future consumer electronics products.

The following table sets forth information as of March 31, 2004 with respect to principal plants for the manufacturing of software for the Music, Pictures and Game segments with floor space of more than 500,000 square feet:

Location	Approximate floor space	Principal products manufactured
	(square feet)	
Terre Haute, Indiana, U.S.A. (Digital Audio Disc Corporation)	655,000	CDs, CD-ROMs, DVDs, and DVD-ROMs
Pitman, New Jersey, U.S.A. (Sony Music Entertainment Inc.)	568,000	CDs, CD-ROMs, DVDs, and DVD-ROMs

In addition to the above, SMEI and its affiliates have several plants in various parts of the world and lease their corporate headquarters located in New York City from Sony Corporation of America (SCA). Most of SMEJ s offices, including leased premises, are located in Tokyo, Japan.

SPE s corporate offices and motion picture and television production facilities are headquartered in Culver City, California, where it owns and operates a studio facility, Sony Pictures Studios. A second studio facility that was owned and operated by SPE, The Culver Studios, was sold in April 2004, and SPE is leasing back a portion of this facility for a two-year period. SPE also leases office space and motion picture and television support facilities from affiliates of Sony Corporation and other third parties. Its film and videotape storage operations are located in various locations in the U.S. and Europe, where SPE also leases space.

In December 2001, SCA entered into a lease for its corporate headquarters. The aggregate floor space of this building is approximately 723,000 square feet. Refer to Increase in Assets and Liabilities as a Result of Consolidation of Variable Interest Entities in Item 5. *Operating and Financial Review and Prospects* below for more information on this lease.

Item 5. *Operating and Financial Review and Prospects*

OPERATING RESULTS

Operating Results for the Fiscal Year Ended March 31, 2004 compared with the Fiscal Year Ended March 31, 2003

Overview

Although the global economy showed some signs of growth in the fiscal year ended March 31, 2004, the political situation, especially in Iraq, and concern about potential terrorist attacks led to a continued sense of uncertainty regarding the economy. In Japan, although the stock market showed signs of recovery, questions remained about the sustainability of economic growth and the strength of the recovery in consumer spending.

Despite these market conditions and the impact of the translation of financial results into yen, in accordance with Generally Accepted Accounting Principles in the U.S. (U.S. GAAP), the currency in which Sony s financial statements are prepared, Sony s sales and operating revenue (sales) for the fiscal year ended March 31, 2004 increased 0.3 percent compared with the previous fiscal year. Sales to outside customers in the Electronics segment increased, and revenue in the Financial Services segment increased

Table of Contents

due to improvements in valuation gains and losses at Sony Life Insurance Co., Ltd. (Sony Life), despite a decrease in sales in the Game, Pictures and Music segments.

Operating income decreased 46.7 percent compared with the previous fiscal year. This decrease was mainly due to the increase in restructuring charges in the Electronics segment, the decrease in sales and increase in research and development costs in the Game segment, and the absence of profits contributed by the breakaway performance of *Spider-Man* in the previous fiscal year in the Pictures segment. Partially offsetting the decrease in operating income were the improvements in valuation gains and losses from investments in the general account at Sony Life in the Financial Services segment, and the benefits of restructuring, a decrease in restructuring charges and a reduction in advertising and promotion expenses in the Music segment.

On a local currency basis (regarding references to results of operations expressed on a local currency basis, refer to *Foreign Exchange Fluctuations and Risk Hedging* below), Sony s sales for the fiscal year ended March 31, 2004 increased approximately 3 percent, and operating income decreased approximately 47 percent compared with the previous fiscal year.

Restructuring

For more detailed information about restructuring, please refer to Note 16 of Notes to the Consolidated Financial Statements. In addition, refer to Trend Information below for more information on planned restructuring efforts.

In the fiscal year ended March 31, 2004, Sony recorded restructuring charges of 168.1 billion yen, an increase from the 106.3 billion yen recorded in the previous fiscal year. The primary restructuring activities were in the Electronics, Music and Pictures segments.

Of the total 168.1 billion yen, Sony recorded 133.4 billion yen in personnel related costs. This expense was incurred because 9,000 people, mainly in Japan, the U.S. and Western Europe, left the company primarily through early retirement programs. Of the 9,000 people, 5,000 were people who left the company in Japan.

Electronics

Restructuring charges in the Electronics segment for the fiscal year ended March 31, 2004 were 143.3 billion yen, compared to 72.5 billion yen in the previous fiscal year, and exceeded the 135.0 billion yen total estimated at the beginning of the fiscal year.

In the year ended March 31, 2004, Sony made a decision to shut down certain TV display CRT manufacturing operations in Japan to rationalize production facilities and downsize its business, due to a contraction in the market and a shift in demand from CRT televisions to plasma and liquid crystal display (LCD) panel televisions. Restructuring charges associated with the shut down totaled 8.5 billion yen, and consisted of 3.1 billion yen in personnel related costs and 5.3 billion yen in non-cash equipment impairment, disposal and other costs. Of the 8.5 billion yen in restructuring charges, 0.2 billion yen was recorded in cost of sales; 3.1 billion yen was included in selling, general and administrative expense, and 5.2 billion yen was included in loss on sale, disposal or impairment of assets, net.

In addition to the above restructuring effort, during the year ended March 31, 2004, the Electronics segment accelerated the implementation of headcount reduction through early retirement programs resulting in personnel related costs of 114.0 billion yen, an increase of 96.4 billion yen compared to the previous year. Of the 9,000 people who left the company on a consolidated basis, the majority came from the Electronics segment. Headcount of relatively high-paid white collar employees in Japan, the U.S. and Western Europe was reduced through early retirement programs while headcount increased at manufacturing facilities in East Asia, particularly in China.

Table of Contents

Music

Due to the continued contraction of the worldwide music market due to slow worldwide economic growth, the saturation of the CD market, the effects of piracy and other illegal duplication, parallel imports, pricing pressures and the diversification of customer preferences, Sony has been actively repositioning the Music segment for the future by looking to create a more effective and profitable business model. As a result, the Music segment has undergone a worldwide restructuring program since the year ended March 31, 2001 to reduce staffing and other costs through the consolidation and rationalization of facilities worldwide.

During the year ended March 31, 2004, Sony broadened the scope of its worldwide restructuring of the Music segment, which resulted in restructuring charges totaling 10.7 billion yen, compared to 22.4 billion yen in the fiscal year ended March 31, 2003. Restructuring activities included the shutdown of a CD manufacturing facility in the U.S. as well as the restructuring of the music label operations and further rationalization of overhead functions through staff reductions. The restructuring charges consisted of personnel related costs of 5.1 billion yen, lease abandonment costs of 1.3 billion yen and other related costs of 4.2 billion yen including non-cash asset impairments and disposals. Most of these charges were recorded in selling, general and administrative expense. Employees were eliminated across various employee levels, business functions, operating units, and geographic regions during this phase of the worldwide restructuring program.

Pictures

Restructuring charges in the Pictures segment for the fiscal year ended March 31, 2004 were 4.6 billion yen, compared to 0.5 billion yen in the previous fiscal year. A variety of initiatives were undertaken in the segment in an effort to reduce fixed costs including the reduction of staffing levels and the disposal of certain long-lived assets. Restructuring charges consisted of 1.0 billion yen of personnel related costs, 1.7 billion yen of non-cash asset impairment and disposal costs and 1.9 billion yen of other restructuring costs. Among these charges, 1.5 billion yen was recorded in cost of sales, 1.3 billion yen was recorded in selling, general and administrative expenses, and 1.7 billion yen was recorded in loss on sale, disposal or impairment of assets, net.

The table below summarizes major restructuring activities for which charges of over 5 billion yen were recorded during the fiscal year ended March 31, 2004.

Segment	Nature of Restructuring	Costs incurred in the fiscal Year Ended March 31, 2004	Additional Information
Electronics	Reduction of TV display CRT production capacity in Japan	8.5 billion yen	Remaining liability balance of 2.2 billion yen at March 31, 2004 will be paid or settled in the fiscal year ending March 31, 2005.
	Early retirement program	114.0 billion yen	Remaining liability balance of 18.3 billion yen at March 31, 2004 will be paid in the fiscal year ending March 31, 2005.
Music	Closure of CD manufacturing facility in U.S., restructuring of the music label operations, and rationalization of overhead functions	10.7 billion yen	Most of the remaining liability balance of 6.2 billion yen at March 31, 2004 will be paid or settled during the fiscal year ending March 31, 2005.

Table of Contents

Operating Performance

	Year Ended March 31		
	2003	2004	Percent change
	(Yen in billions)		
Sales and operating revenue	7,473.6	7,496.4	+0.3%
Operating income	185.4	98.9	-46.7
Income before income taxes	247.6	144.1	-41.8
Net income	115.5	88.5	-23.4

Sales

Sales for the fiscal year ended March 31, 2004 increased by 22.8 billion yen, or 0.3 percent, to 7,496.4 billion yen compared with the previous fiscal year. A further breakdown of sales figures is presented under *Operating Performance by Business Segment* below.

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

Cost of Sales and Selling, General and Administrative Expenses

Cost of sales for the fiscal year ended March 31, 2004 increased by 78.8 billion yen, or 1.6 percent, to 5,058.2 billion yen compared with the previous fiscal year, and increased from 72.0 percent to 73.5 percent as a percentage of sales. Year on year, the cost of sales ratio was unchanged at 78.8 percent in the Electronics segment and almost unchanged from 70.2 percent to 70.1 percent in the Game segment. The cost of sales ratio decreased from 61.5 percent to 60.7 percent in the Music segment. However, the cost of sales ratio increased from 58.2 percent to 60.0 percent in the Pictures segment.

In the Electronics segment, the benefit of restructuring undertaken in previous years was offset primarily by an increase in research and development costs during the fiscal year. In the Game segment, the effect of increased PlayStation 2 software sales was offset by increased research and development costs. The cost of sales ratio in the Music segment decreased due to the benefits from restructuring activities implemented over the past several fiscal years. However, the cost of sales ratio in the Pictures segment increased due to the absence of the higher margins generated by revenues from *Spider-Man* in the prior fiscal year.

Personnel related costs included in cost of sales increased only 1.7 billion yen compared with the previous fiscal year.

Research and development costs (included in cost of sales) for the fiscal year ended March 31, 2004 increased by 71.4 billion yen, or 16.1 percent, to 514.5 billion yen compared with the previous fiscal year, primarily due to increases in the Electronics and Game segments. The ratio of research and development costs to sales increased from 6.4 percent to 7.5 percent.

Selling, general and administrative expenses for the fiscal year ended March 31, 2004 increased by 15.9 billion yen, or 0.9 percent, to 1,798.2 billion yen compared with the previous fiscal year. The ratio of selling, general and administrative expenses to sales increased from 25.6 percent in the previous fiscal year to 25.9 percent. Year on year, the ratio of selling, general and administrative expenses to sales increased from 20.3 percent to 21.8 percent in the Electronics segment, from 18.0 percent to 21.1 percent in the Game segment, and from 34.4 percent to 35.0 percent in the Pictures segment, while it decreased from 39.8 percent to 35.0 percent in the Music segment.

Table of Contents

Of the selling, general and administrative expenses, personnel related costs in selling, general and administrative expenses increased by 89.7 billion yen compared with the previous fiscal year mainly due to an increase in severance related expenses in the Electronics segment resulting from the implementation of restructuring initiatives. However, the increase in selling, general and administrative expenses was partially offset by a decrease in royalty expenses, which decreased by 20.5 billion yen compared with the previous fiscal year due to the reversal, in the fiscal year ended March 31, 2004, of royalty expense reserves provided for in the previous fiscal year in the Electronics segment.

Loss on sale, disposal or impairment of assets, net decreased 4.4 billion yen, or 11.1 percent, compared with the previous fiscal year, to 35.5 billion yen. Losses were recorded on the sale, disposal and impairment of CRT production equipment in the Electronics segment, on the impairment of goodwill that resulted from the making of a manufacturing subsidiary into a wholly owned subsidiary in the Electronics segment, and on the commencement of reorganization proceedings under the Corporate Reorganization Law of Japan by Crosswave Communications Inc. (Crosswave), which leased fixed assets from a business in the Financial Services segment. On the other hand, a one time gain was recorded in the Other segment due to the sale of rights to a portion of the Sony Card portfolio.

Operating Income

Operating income for the fiscal year ended March 31, 2004 decreased by 86.5 billion yen, or 46.7 percent, to 98.9 billion yen compared with the previous fiscal year. Operating income margin decreased from 2.5 percent to 1.3 percent. The Electronics segment recorded an operating loss mainly due to an increase in restructuring charges. On the other hand, the business segments that contributed the most to operating income, in descending order by amount of financial impact, were the Game and Financial Services segments.

Other Income and Expenses

In the consolidated results for the fiscal year ended March 31, 2004, other income decreased by 35.2 billion yen, or 22.4 percent, to 122.3 billion yen, while other expenses decreased by 18.2 billion yen, or 19.1 percent, to 77.1 billion yen, compared with the previous fiscal year. The net amount of other income and other expenses was net other income of 45.2 billion yen, a decrease of 17.0 billion yen, or 27.4 percent, compared with the previous fiscal year.

The decrease in other income was primarily due to the recording, in the fiscal year ended March 31, 2003, of a 66.5 billion yen gain on the sale of Sony s equity interest in Telemundo Communications Group, Inc. and its subsidiaries (Telemundo), a U.S. based Spanish language television network and station group that was accounted for under the equity method. Partially offsetting the decrease in other income was a 16.1 billion yen increase in net foreign exchange gain, from 1.9 billion yen in the previous fiscal year to 18.1 billion yen. The net foreign exchange gain was recorded because the value of the yen, especially during the second half of the fiscal year ended March 31, 2004, was higher than the value of the yen at the time that Sony entered into foreign exchange forward contracts and foreign currency option contracts. These contracts are entered into by Sony to mitigate the foreign exchange rate risk to cash flows that arises from settlements of foreign currency denominated accounts receivable and accounts payable, as well as foreign currency denominated transactions between consolidated subsidiaries. Compared to the previous fiscal year, royalty income increased 1.9 billion yen, or 5.8 percent, from 32.4 billion yen to 34.2 billion yen. Interest and dividends received increased by 4.3 billion yen, or 29.9 percent, to 18.8 billion yen.

The decrease in other expenses was primarily due to a 6.7 billion yen, or 29.0 percent, decrease to 16.5 billion yen in loss on devaluation of securities investments compared with the previous year. During the fiscal year ended March 31, 2004, the valuation losses Sony recorded included 10.3 billion yen recorded in regards to securities issued by a privately held Japanese company engaged in cable broadcasting and other businesses which Sony accounted for under the cost method. Compared to the previous fiscal year, interest paid increased 0.5 billion yen, or 2.0 percent, to 27.8 billion yen.

Table of Contents

In January 2004, FeliCa Networks Inc. (FeliCa Networks) issued 11.5 billion yen in shares (115,000 shares at 100,000 yen per share) in a private offering. FeliCa Networks engages in the development and licensing of an Integrated Circuit (IC) chip for cellular phones based on the contactless IC card technology FeliCa , which was developed by Sony. It also operates a platform, based on FeliCa-ready cellular phones, for use by service providers. Sony recorded a gain of 3.4 billion yen and also recorded deferred taxes on this gain. This issuance reduced Sony s ownership interest from 100 percent to 60 percent. In June 2004, FeliCa Networks allocated new shares to a third party; Sony s ownership interest is now approximately 57 percent.

In addition to the above transaction, for the year ended March 31, 2004, Sony recognized 1.5 billion yen of other gains on issuances of stock by subsidiaries and equity investees resulting in total gains of 4.9 billion yen. These transactions were not part of a broader corporate reorganization and the reacquisition of such shares was not contemplated at the time of issuance.

Income before Income Taxes

Income before income taxes for the fiscal year ended March 31, 2004 decreased 103.6 billion yen, or 41.8 percent, to 144.1 billion yen compared with the previous fiscal year. As mentioned above, operating income and the net amount of other income and other expenses decreased compared with the previous year.

Income Taxes

Income taxes for the fiscal year ended March 31, 2004 decreased by 28.1 billion yen, or 34.7 percent, to 52.8 billion yen, as a result of the decrease in income before income taxes. Income taxes decreased 91.6 billion yen, or 51.2 percent, to 87.2 billion yen, while deferred income tax expense decreased by 63.6 billion yen, or 64.9 percent, to 34.4 billion yen. The effective tax rate for the fiscal year was 36.6 percent, lower than the statutory rate in Japan due to a decrease in deferred tax liabilities on undistributed earnings of foreign subsidiaries and because U.S. income was taxed at a lower rate due to utilization of tax loss and foreign tax credit carryforwards. However, this rate was higher than the effective tax rate of 32.6 percent in the prior fiscal year, which benefited from a reversal in valuation allowances on deferred tax assets by Aiwa Co., Ltd. and its subsidiaries (Aiwa).

Results of Affiliated Companies Accounted for under the Equity Method

Equity in net income of affiliated companies during the fiscal year ended March 31, 2004 was 1.7 billion yen, an improvement over the 44.7 billion yen in losses recorded in the previous fiscal year. Equity in net income of Sony Ericsson Mobile Communications (Sony Ericsson), a joint venture focused on mobile phone handsets, was 6.4 billion yen, an improvement from the 20.8 billion yen in losses recorded in the previous fiscal year. This improvement was due to strong demand for Sony Ericsson s products, particularly in the Global System for Mobile Communications (GSM) and Japanese markets, and due to improvements in operating efficiencies at the company. Moreover, S.T. Liquid Crystal Display Corporation (ST-LCD), an LCD joint venture in Japan, recorded a profit compared with a loss in the previous fiscal year. Partially offsetting these improvements were equity in net losses of some other affiliated companies such as Crosswave, which commenced reorganization proceedings under the Corporate Reorganization Law of Japan. The equity in net loss related to Crosswave for the fiscal year ended March 31, 2004 was 1.4 billion yen.

Minority Interest in Income (Loss) of Consolidated Subsidiaries

In the fiscal year ended March 31, 2004, minority interest in income of consolidated subsidiaries decreased 4.2 billion yen, or 63.9 percent, to 2.4 billion yen. This decrease is due to the absence of the previous year increase which resulted from the reversal, in that year, of valuation allowances on deferred tax assets held by Aiwa, as described above, and the fact that Sony ceased to record a minority interest in the losses of Aiwa in that year, as a result of taking Aiwa private. For the fiscal year ended March 31,

Table of Contents

2004, minority interest in income was recorded mainly at certain television and home entertainment subsidiaries in the Pictures segment.

Net Income

Net income for the fiscal year ended March 31, 2004 decreased by 27.0 billion yen, or 23.4 percent, to 88.5 billion yen compared with the previous fiscal year. As a percentage of sales, net income decreased 0.3 percentage points from 1.5 percent to 1.2 percent. Although income before income taxes decreased as described above, the year on year change from loss to income in equity in net income (loss) of affiliated companies partially offset the decline in net income. Return on stockholders equity decreased 1.2 percentage points from 5.0 percent to 3.8 percent. (This ratio is calculated by dividing net income by the simple average of stockholders equity at the end of the previous fiscal year and at the end of the fiscal year ended March 31, 2004.)

Basic net income per share was 95.97 yen compared with 125.74 yen in the previous fiscal year, and diluted net income per share was 90.88 yen compared with 118.21 yen in the previous fiscal year. Refer to Notes 2 and 20 of Notes to Consolidated Financial Statements.

Operating Performance by Business Segment

The following discussion is based on segment information. Sales and operating revenue in each business segment include intersegment transactions. Refer to Note 23 of Notes to Consolidated Financial Statements.

Business Segment Information

	Year Ended March 31		
	2003	2004	Percent change
	(Yen in billions)		
Sales and Operating revenue			
Electronics	4,940.5	4,897.4	-0.9%
Game	955.0	780.2	-18.3
Music	597.5	559.9	-6.3
Pictures	802.8	756.4	-5.8
Financial Services	537.3	593.5	+10.5
Other	306.3	330.4	+7.9
Elimination	(665.7)	(421.4)	
Consolidated	7,473.6	7,496.4	+0.3

Table of Contents

	Year Ended March 31		
	2003	2004	Percent change
	(Yen in billions)		
Operating income (loss)			
Electronics	41.4	(35.3)	
Game	112.7	67.6	-40.0%
Music	(7.9)	19.0	
Pictures	59.0	35.2	-40.3
Financial Services	22.8	55.2	+142.4
Other	(25.0)	(10.0)	
Elimination and unallocated corporate expenses	(17.5)	(32.7)	
Consolidated	185.4	98.9	-46.7

At the beginning of the fiscal year ended March 31, 2004, Sony partly realigned its business segment configuration. Expenses incurred in connection with the creation of a network platform business have been transferred out of the Other segment and reclassified as unallocated corporate expenses, because the expected future benefits of this business will be spread across the Sony Group. In the Music segment, certain non-core businesses of Sony Music Entertainment (Japan), Inc., such as media, animation, character and cosmetics, were transferred to the newly-established Sony Culture Entertainment, Inc. (SCU) and SCU was classified in the Other segment. In accordance with this realignment, results of the previous fiscal year have been reclassified to conform to the presentation for the fiscal year ended March 31, 2004.

Electronics

Sales for the fiscal year ended March 31, 2004 decreased by 43.1 billion yen, or 0.9 percent, to 4,897.4 billion yen compared with the previous fiscal year. An operating loss of 35.3 billion yen was recorded compared to operating income of 41.4 billion yen in the previous fiscal year.

The year on year decrease in sales was due to a significant decrease in intersegment sales to the Game segment as a result of the outsourcing of PlayStation 2 game console production to third parties in China. Sales to outside customers on a yen basis increased 4.7 percent compared with the previous fiscal year.

Regarding sales to outside customers by geographic area, sales on a yen basis increased in Japan by 11 percent, in Europe by 10 percent, and in non-Japan Asia and other geographic areas (Other Areas) by 8 percent. Sales on a yen basis in the U.S. decreased 7 percent.

In Japan, mainly due to the strong sales of Sony Ericsson, sales of cellular phones, primarily to Sony Ericsson, increased significantly. In addition, sales of charge coupled devices (CCDs), which benefited from an expansion in demand mainly from digital still cameras, DVD recorders (including PSX), plasma and LCD flat panel televisions, and broadcast- and professional-use equipment increased. On the other hand, sales of PCs and CRT televisions decreased. In Europe, sales of digital still cameras, flat panel televisions, cellular phones, and PCs increased significantly. Sales of CRT televisions, portable audio, Aiwa products, and home audio, however, decreased. In Other Areas, sales of CD-R/ RW and DVD+/-R/ RW drives, digital still cameras, PCs, and video cameras increased while sales of CRT televisions decreased. In the U.S., a significant decrease in the sales of CRT televisions combined with decreased sales of Aiwa products, computer displays, set-top boxes, and personal digital assistants to cause a decline in sales, but sales of flat panel televisions, projection televisions, digital still cameras and PCs increased.

Table of Contents

Performance by Product Category

Sales and operating revenue by product category discussed below represent sales to customers, which do not include intersegment transactions. Refer to Note 23 of Notes to Consolidated Financial Statements.

Audio sales decreased by 58.9 billion yen, or 8.6 percent, to 623.6 billion yen. Sales of home audio declined due to a contraction of the market and increased price competition. Regarding headphone stereos, sales declined primarily due to falling prices, but the unit shipments of both MD format and CD format devices slightly exceeded their levels in the previous year. Worldwide shipments of MD format devices increased by approximately 40,000 units to approximately 3.36 million units and worldwide shipments of CD format devices increased by approximately 240,000 units to approximately 10.96 million units. On the other hand, sales of car audio increased due to strong sales in the European market.

Video sales increased by 97.0 billion yen, or 11.4 percent, to 948.1 billion yen. In addition to a significant increase in the sales of digital still cameras outside of Japan, sales of DVD recorders (including PSX) increased significantly primarily in Japan. Worldwide shipments of digital still cameras increased by approximately 4.4 million units to approximately 10 million units. Worldwide shipments of DVD recorders were approximately 20,000 units in the previous fiscal year but increased to approximately 650,000 units in the fiscal year ended March 31, 2004. Regarding home-use video cameras, worldwide shipments of combined analog and digital devices increased by approximately 850,000 units to approximately 6.6 million units, but overall sales increased only slightly, as sales in Japan and the U.S. decreased due to increased price competition. DVD-Video player sales decreased due to pricing pressure, although unit shipments increased.

Televisions sales decreased by 33.0 billion yen, or 3.5 percent, to 917.2 billion yen. Sales of CRT televisions decreased significantly due to a contraction of the market and declining prices, resulting primarily from a shift in demand to flat panel televisions. Worldwide shipments of CRT televisions decreased approximately 600,000 units to approximately 9.4 million units compared with the previous fiscal year. Sales of computer displays also decreased worldwide. On the other hand, sales of plasma and LCD flat panel televisions increased significantly worldwide and sales of projection televisions in the U.S. increased. Worldwide shipments of flat panel televisions increased approximately 480,000 units to approximately 640,000 units.

Information and Communications sales decreased by 2.0 billion yen, or 0.2 percent, to 834.8 billion yen. Despite a decrease in sales in Japan, due to price declines in the notebook PC market, overall sales of PCs increased as sales in all regions outside of Japan increased. Worldwide unit shipments of PCs increased approximately 100,000 units to approximately 3.2 million units. Sales of personal digital assistants decreased due to a contraction of the market and the effects of price declines. Sales of broadcast- and professional-use products were almost unchanged year on year as sales in Japan increased due to the sale of equipment installed in two new broadcasting stations, while many broadcasters in the U.S. and other countries outside of Japan reduced their capital expenditures.

Semiconductors sales increased by 48.5 billion yen, or 23.7 percent, to 253.2 billion yen. The increase was due to a significant increase in sales of CCDs, mainly reflecting the expansion of the market for digital still cameras. Regarding LCDs, sales of low temperature polisilicon LCDs for digital still cameras and cellular phones increased significantly.

Components sales increased by 96.0 billion yen, or 18.2 percent, to 623.8 billion yen. The increase was primarily due to significant increases in sales of CD-R/ RW and DVD+/-R/ RW drives, and Memory Sticks. Moreover, sales of lithium-ion batteries increased. Sales of CD-R/ RW drives increased due to a production and sales alliance with a third party, and sales of DVD+/-R/ RW drives increased as a result of the expansion of the market for those devices. Worldwide shipments of Memory Stick increased approximately 12 million units to approximately 31 million units due to the continued, strong demand for digital still cameras. On March 31, 2004, Sony s cumulative shipments of Memory Stick had reached approximately 66 million units. Regarding lithium-ion batteries, sales for use in digital still cameras and PCs increased.

Table of Contents

Other sales increased by 67.4 billion yen, or 13.7 percent, to 557.7 billion yen. The increase resulted from a significant increase in sales to Sony Ericsson of mobile phone handsets, reflecting an increase in the sales of Sony Ericsson s handsets. On the other hand, sales of Aiwa products decreased in all regions.

In the Electronics segment, cost of sales for the fiscal year ended March 31, 2004 decreased by 34.6 billion yen, or 0.9 percent to 3,834.6 billion yen compared with the previous fiscal year. The cost of sales to sales ratio remained unchanged year on year at 78.8 percent. Products that contributed to an improvement in the cost of sales to sales ratio were PCs, which benefited from an emphasis on profitability and an increase in the proportion of high value added models in the product line-up, and low temperature polisilicon LCDs, which benefited from a significant expansion in sales. Offsetting this improvement, however, was a significant increase in the sales of mobile phone handsets, produced for Sony Ericsson, which have a relatively high cost of sales to sales ratio. Restructuring charges recorded in cost of sales amounted to 10.1 billion yen compared with 22.2 billion yen in the previous year. Research and development costs increased 49.1 billion yen, or 12.9 percent, from 380.3 billion yen in the previous year to 429.4 billion yen.

Selling, general and administrative expenses increased by 67.9 billion yen, or 6.8 percent to 1,068.7 billion yen compared with the previous fiscal year. The primary reason for this increase was an increase in restructuring charges. Of the restructuring charges recorded in the Electronics segment, the amount recorded in selling, general and administrative expenses increased by 86.2 billion yen from 36.4 billion yen in the previous year to 122.6 billion yen. Of the restructuring charges recorded in selling, general and administrative expenses, the amount recorded for headcount reductions, including reductions through the early retirement program, was 117.1 billion yen, an increase of 89.3 billion yen compared with the previous fiscal year. In addition to these personnel related costs, restructuring charges were recorded in relation to TV display CRT manufacturing facilities in Japan. In contrast to the increase in restructuring charges, royalty expenses decreased 20.4 billion yen and after sales service expenses decreased 8.6 billion yen compared with the previous fiscal year. The ratio of selling, general and administrative expenses to sales increased 1.5 percentage points from 20.3 percent recorded in the previous fiscal year to 21.8 percent, due to the decrease in sales.

Loss on sale, disposal or impairment of assets, net increased 0.3 billion yen to 29.4 billion yen compared with the previous fiscal year. This amount includes 10.6 billion yen in restructuring charges, which includes 5.2 billion yen related to the TV display CRT manufacturing facilities in Japan. The amount of restructuring charges included in loss on sale, disposal or impairment, net in the previous fiscal year was 13.9 billion yen.

Regarding profit performance of the segment, an operating loss was recorded for the fiscal year due to a significant increase in restructuring charges, especially severance-related expenses, as mentioned above. Regarding profit performance by product, excluding restructuring charges, compared with the previous fiscal year, operating income was recorded in PCs compared with an operating loss in the previous fiscal year, and a significant increase in operating income of CCDs was recorded. Losses from Aiwa products decreased while the operating income of CD-R/ RW and DVD+/-R/ RW drives, as well as of video cameras, increased.

On the other hand, operating income of CRT televisions decreased significantly while operating income of optical pickups decreased due to a sharp decline in prices. Furthermore, personal digital assistants recorded an operating loss compared with operating income recorded in the previous year.

Manufacturing by Geographic Area

Approximately 50 percent of the Electronics segment s total annual production took place in Japan, including the production of digital still cameras, video cameras, flat panel televisions, PCs, semiconductors and components such as batteries and Memory Sticks. Approximately 60 percent of the annual production in Japan was destined for other regions. China accounted for approximately 15 percent of total annual production, approximately 60 percent of which was destined for Japan, the U.S. and Europe. Asia, excluding Japan and China, accounted for approximately 10 percent of total annual production, with

Table of Contents

approximately 60 percent destined for Japan, the U.S. and Europe. The Americas and Europe together accounted for the remaining approximately 25 percent of total annual production, most of which was destined for local distribution and sale. Until July 2003, total annual production included the assembly of PlayStation 2 hardware for the Game segment; however, due to the outsourcing of PlayStation 2 hardware production to China-based third parties, this assembly activity ceased in July 2003.

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

In the Electronics segment, the negative effect of the appreciation of the yen against the U.S. dollar slightly exceeded the positive effect of the appreciation of the euro against the yen. Sales for the fiscal year ended March 31, 2004 decreased, on a yen basis, by 0.9 percent, but increased on a local currency basis by approximately 1 percent. In terms of operating performance on a local currency basis, an operating loss was recorded compared to operating profit in the previous year, but the amount of that loss was less than on a yen basis.

Regarding sales to outside customers by geographic area, sales on a yen basis increased in Japan by 11 percent, in Europe by 10 percent, and in Other Areas by 8 percent. Sales on a yen basis in the U.S decreased 7 percent. Sales on a local currency basis increased in every region, with sales in Japan increasing 11 percent, sales in Europe increasing 4 percent, sales in Other Areas increasing 14 percent and sales in the U.S. increasing 1 percent.

Game

Sales for the fiscal year ended March 31, 2004 decreased by 174.8 billion yen, or 18.3 percent, to 780.2 billion yen compared with the previous fiscal year. Operating income decreased by 45.1 billion yen, or 40.0 percent, to 67.6 billion yen compared with the previous fiscal year, and the operating income margin decreased from 11.8 percent to 8.7 percent.

Sales in the Game segment on a local currency basis decreased 18 percent, approximately the same as on a yen basis. In regards to operating income, the positive impact of the depreciation of the yen against the euro exceeded the negative impact of the appreciation of the yen against the U.S. dollar, resulting in a 52 percent decrease in operating income on a local currency basis.

By region, sales decreased in Japan, the U.S. and Europe. In Japan, hardware sales declined due to a strategic price reduction of PlayStation 2 hardware, despite higher unit sales of PlayStation 2 hardware. Software sales in Japan also decreased due to lower unit sales. In the U.S., sales declined due to a decrease in unit sales of PlayStation 2 hardware, a strategic price reduction of PlayStation 2 hardware and a decrease in software unit sales. In Europe, although hardware unit sales increased as the market penetration of PlayStation 2 hardware continued to expand, hardware sales declined due to a strategic price reduction of PlayStation 2 hardware. Software unit sales and software sales in Europe both increased.

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

	Year Ended March 31		
	2003	**2004**	**Cumulative as of March 31, 2004**
	(Million units)		
Total Production Shipments of Hardware			
PlayStation + PS one	6.78	3.31	99.72
PlayStation 2	22.52	20.10	71.30
Total Production Shipments of Software*			
PlayStation	61.00	32.00	949.00
PlayStation 2	189.90	222.00	572.00

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

In terms of profitability, operating income decreased compared with the previous fiscal year. This decrease was due to an increase in research and development costs for future businesses and a decrease in hardware sales. Research and development costs increased by 21.9 billion yen to 83.4 billion yen compared with the previous fiscal year. Although research and development costs for software development increased only slightly, costs for the development of semiconductors and process technologies increased significantly.

Cost of sales in the Game segment decreased due to the decrease in hardware unit sales and reductions in the cost of producing hardware. The cost of sales to sales ratio, however, remained unchanged as the cost of producing PlayStation 2 hardware decreased in line with the decrease in hardware sales. Selling, general and administrative expenses decreased as a result of a decline in advertising and promotion expenses, reflecting the decrease in hardware units sold. However, the ratio of selling, general and administrative expenses to sales rose compared to the previous fiscal year as the ratio of personnel related costs and advertising and promotion expenses to sales rose compared with the previous fiscal year.

Music

Sales for the fiscal year ended March 31, 2004 decreased by 37.6 billion yen, or 6.3 percent, to 559.9 billion yen compared with the previous fiscal year. Compared to an operating loss of 7.9 billion yen in the previous fiscal year, operating income of 19.0 billion yen was recorded this year.

On a local currency basis, sales in the Music segment were flat while the Music segment recorded operating income as compared to an operating loss in the previous fiscal year.

Sales at Sony Music Entertainment Inc. (SMEI), a U.S. based subsidiary, were flat on a U.S. dollar basis (refer to *Foreign Exchange Fluctuations and Risk Hedging* below). In terms of profitability, SMEI recorded operating income in the fiscal year as compared to an operating loss in the previous fiscal year. The appreciation of European currencies against the U.S. dollar contributed to higher sales outside of the U.S. which were offset by lower sales in the U.S. On a worldwide basis, total album sales at SMEI decreased due to the continued contraction of the global music industry and the lack of hit releases. Although unit sales in various markets such as the U.S. have begun to reverse their downward trend, the global music market has continued to experience an overall contraction primarily due to piracy (i.e. unauthorized file sharing and CD burning) and competition from other entertainment sectors.

The increase in profitability resulted in operating income at SMEI, compared to an operating loss recorded in the previous fiscal year. The improvement in profitability primarily resulted from the benefits realized from the worldwide restructuring activities implemented over the past two years to reduce costs in response to the downward trend of the market. These activities included the rationalization of manufacturing, distribution and support functions including record label shared services through elimination of redundancy. Operating income also benefited from lower restructuring charges as compared to the prior year. The total cost of restructuring for the fiscal year ended March 31, 2004 was 95 million U.S. dollars or 10.7 billion yen, a decrease of 95 million U.S. dollars from the prior year (refer to Restructuring above for details.) A third factor contributing to the improved operating results were lower advertising and promotion expenses. The above factors more than offset the negative effect of lower worldwide album sales. The savings realized from previously implemented restructuring initiatives, lower restructuring charges and the decrease in advertising and promotion expenses resulted in a decrease in selling, general and administrative expenses for the year and an improvement in the ratio of selling, general and administrative expenses to sales.

Regarding the results of Sony Music Entertainment (Japan) Inc. (SMEJ), sales were flat compared with the previous year, despite the continued contraction of the music industry. Operating income increased 69 percent compared with the prior year due to a reduction in selling, general and administrative expenses, primarily advertising and promotion expenses, and strong sales of Japanese artists recordings.

Table of Contents

On a yen basis, 74 percent of the Music segment s sales were generated by SMEI while 26 percent were generated by SMEJ.

In December 2003, Sony and Bertelsmann AG announced that they had signed a binding agreement to combine their recorded music businesses in a joint venture. The newly formed company, which will be known as Sony BMG, will be 50% owned by each parent company. It will not include SMEI s music publishing, physical distribution and disc manufacturing business or SMEJ. The merger is subject to regulatory approvals in the U.S. and the European Union.

Pictures

Sales for the fiscal year ended March 31, 2004 decreased by 46.4 billion yen, or 5.8 percent, to 756.4 billion yen compared with the previous fiscal year. Operating income decreased by 23.8 billion yen, or 40.3 percent, to 35.2 billion yen and the operating income margin decreased from 7.3 percent to 4.7 percent. The results in the Pictures segment consist of the results of Sony Pictures Entertainment (SPE), a U.S. based subsidiary.

On a U.S dollar basis, sales for the fiscal year in the Pictures segment increased approximately 2 percent and operating income decreased approximately 30 percent. The increase in sales was primarily due to higher television performance in the fiscal year. Television revenues increased significantly due to initial syndication sales of *The King of Queens* and third cycle syndication sales of *Seinfeld,* as well as the extension of a licensing agreement for *Wheel of Fortune.* This increase in sales was partially offset by lower theatrical and home entertainment revenues from the fiscal year release slate, which included such notable titles as *Bad Boys 2*, *S.W.A.T.*, *Anger Management* and *Something s Gotta Give,* when compared to the prior fiscal year release slate, which included *Spider-Man,* the highest grossing film in SPE s history, *Men in Black II, xXx* and *Mr. Deeds.* Sales for the fiscal year release slate decreased 359 million U.S. dollars as compared to the previous fiscal year. Operating income for the segment decreased significantly due to the absence of profits contributed by the record breaking performance of *Spider-Man* in the previous fiscal year and, to a lesser extent, the aggregate disappointing performance of several films from the fiscal year release slate including *Gigli, Hollywood Homicide, The Missing* and *Charlie s Angels: Full Throttle,* resulting in a decrease in operating income of 412 million U.S. dollars from the prior fiscal year release slate. Additionally, operating income was also negatively impacted by a 38 million U.S. dollar increase in restructuring charges recorded in the fiscal year (refer to Restructuring above for details). Partially offsetting these decreases in operating income was the contribution from the syndication sales and extension of a licensing agreement noted above, DVD sales of television library product and an additional syndication sale of *Dawson s Creek,* resulting in a 201 million U.S. dollar increase in operating income. Further improving operating income was the absence of the 66 million U.S. dollar provision recorded in the prior year with respect to previously recorded revenue from KirchMedia, a licensee in Germany of SPE s feature film and television product, and related adjustments to ultimate film income.

As of March 31, 2004, unrecognized license fee revenue at SPE was approximately 1.2 billion U.S. dollars. SPE expects to record this amount in the future having entered into contracts with television broadcasters to provide those broadcasters with completed motion picture and television product. The license fee revenue will be recognized in the year that the product is available for broadcast.

Financial Services

Financial Services revenue for the fiscal year ended March 31, 2004 increased by 56.3 billion yen, or 10.5 percent, to 593.5 billion yen compared with the previous fiscal year. Operating income increased by 32.4 billion yen, or 142.4 percent, to 55.2 billion yen and the operating income margin increased to 9.3 percent compared with the 4.2 percent of the previous fiscal year.

At Sony Life, revenue increased by 46.4 billion yen, or 9.9 percent, to 513.0 billion yen and operating income increased by 33.6 billion yen, or 113.3 percent, to 63.2 billion yen compared with the previous fiscal year. Revenue increased due to improvements in valuation gains and losses from investments in the separate account and the general account, reflecting strength in the equity markets. This increase occurred

Table of Contents

despite a 30.8 billion yen reduction in revenue resulting from a change in the method of recognizing insurance premiums received on certain products from being recorded as revenues to being offset against the related provision for future insurance policy benefits since the third quarter beginning October 1, 2003. Insurance revenue decreased as a result of this change in method of recording revenue but the actual life insurance business remained strong as new insurance sales increased compared with the previous year, and the amount of insurance-in-force at the end of the fiscal year increased compared with the end of the previous year. Operating income at Sony Life increased due to improvements in valuation gains and losses from investments in the general account. The above mentioned change in revenue recognition method did not have a material effect on operating income. Valuation gains and losses from investments in the separate account accrue directly to the account of policyholders and, therefore, do not affect operating income.

At Sony Assurance Inc. (Sony Assurance), revenue increased due to higher insurance revenue brought about by an expansion in automobile insurance-in-force. Operating income was recorded during the fiscal year compared to an operating loss in the previous fiscal year due to the increase in insurance revenue and an improvement in the expense ratio (the ratio of operating expenses to premiums) and the loss ratio (the ratio of insurance payouts to premiums).

At Sony Finance International, Inc. (Sony Finance), a leasing and credit financing business subsidiary in Japan, revenue was unchanged compared to the previous year as credit financing revenue increased slightly and leasing revenue and rent revenue decreased slightly. In terms of profitability, operating loss increased due to the recording of a loss from the lease of certain fixed assets to Crosswave Communications Inc., which commenced reorganization proceedings under the Corporate Reorganization Law of Japan, and an increase in expenses associated with the start, in earnest, of a credit card business.

Sony Bank Inc. (Sony Bank), which started business in June 2001, recorded a loss, as was also the case in the previous fiscal year, but the amount of loss decreased.

* The revenue and operating income at Sony Life, Sony Assurance and Sony Bank discussed here differ from the results that Sony Life, Sony Assurance and Sony Bank disclose on a Japanese statutory basis.

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

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

Table of Contents

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

	Financial Services		All other segments excluding Financial Services		Consolidated	
Year Ended March 31	2003	2004	2003	2004	2003	2004
	(Yen in millions)					
Financial Services revenue	537,276	593,544			509,398	565,752
Net sales and operating revenue			6,974,980	6,939,964	6,964,235	6,930,639
	537,276	593,544	6,974,980	6,939,964	7,473,633	7,496,391
Costs and expenses	514,518	538,383	6,811,292	6,896,377	7,288,193	7,397,489
Operating income	22,758	55,161	163,688	43,587	185,440	98,902
Other income (expenses), net	(1,282)	1,958	67,846	52,746	62,181	45,165
Income before income taxes	21,476	57,119	231,534	96,333	247,621	144,067
Income taxes and other	13,071	22,975	120,089	30,916	132,102	53,439
Cumulative effect of accounting changes				(2,117)		(2,117)
Net income	8,405	34,144	111,445	63,300	115,519	88,511

Other

During the fiscal year, sales of the Other segment were comprised mainly of an in-house oriented information system service business, an advertising agency business in Japan and Sony Communication Network Corporation (SCN), an Internet-related service business subsidiary operating mainly in Japan.

Sales for the fiscal year ended March 31, 2004 increased by 24.1 billion yen, or 7.9 percent, to 330.4 billion yen, compared with the previous fiscal year. Of total segment sales, 53 percent were sales to outside customers. In terms of profit performance, operating losses for the segment decreased from 25.0 billion yen to 10.0 billion yen.

During the fiscal year, sales increased primarily due to an increase in sales at the in-house oriented information system service business, reflecting greater demand for its services by other businesses within the Sony Group. Regarding profit performance, the segment recorded a loss primarily due to the recording of expenses associated with the development of network and content technology and services, intended to facilitate new businesses in the broadband age. Overall segment losses decreased compared to the previous fiscal year primarily because a U.S. subsidiary recorded a one-time gain of 7.7 billion yen on the sale of rights related to a portion of the Sony Card portfolio and because software in a discontinued professional-use video software business had been written off in the previous fiscal year. On the other hand, an operating loss was recorded at SCN compared with operating income in the previous fiscal year, due to increased expenses for subscriber acquisition.

Foreign Exchange Fluctuations and Risk Hedging

During the fiscal year ended March 31, 2004, the average value of the yen was 112.1 yen against the U.S. dollar, and 131.1 yen against the euro, which was 7.3 percent higher against the U.S. dollar and 9.7 percent lower against the euro, respectively, compared with the average of the previous fiscal year. Operating results on a local currency basis described in Overview and Operating Performance show results of sales and operating revenue and operating income obtained by applying the yen s monthly average exchange rate in the previous fiscal year to monthly local currency-denominated sales, cost of sales, and selling, general and administrative expenses for the fiscal year ended March 31, 2004, as if the value of the yen had remained constant. In the Music segment, Sony consolidates the yen-translated results of SMEI (a U.S. based operation that aggregates the results of its worldwide subsidiaries on a U.S. dollar basis) and the results of SMEJ (a Japan based operation that aggregates the results of its operations in yen). In the Pictures segment, Sony translates into yen the U.S. dollar consolidated results of SPE (a U.S. based operation that has worldwide subsidiaries). Therefore, analysis and discussion of certain portions of the operating results of SMEI and SPE are specified as being on a U.S. dollar basis. Results on a local currency basis and results on a U.S. dollar basis are not on the same basis as Sony s consolidated financial statements and do not conform with U.S. GAAP. In addition, Sony does not believe that these measures are a substitute for U.S. GAAP measures. However, Sony believes that local currency basis results provide additional useful information to investors regarding operating performance.

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

In 2001, Sony Global Treasury Services Plc (SGTS) was established in London for the purpose of providing integrated treasury services for Sony Corporation and its subsidiaries. Sony s policy is that Sony Corporation and all subsidiaries with foreign exchange exposures should enter into commitments with SGTS for hedging their exposures. Sony Corporation and most of its subsidiaries utilize SGTS for this purpose. The concentration of foreign exchange exposures at SGTS means that, in effect, SGTS hedges the net foreign exchange exposure of Sony Corporation and its subsidiaries. SGTS in turn enters into foreign exchange transactions with creditworthy third-party financial institutions. Most of the transactions are entered into against projected exposures before the actual export and import transactions take place. In particular SGTS hedges the majority of the exposures on major currency pairs such as U.S. dollar against Japanese yen, euro against Japanese yen and euro against U.S. dollar, on average three months before the actual transactions take place. In the case of emerging market currencies, such as Brazil, with high inflation and high interest rates, the majority of the projected exposures are hedged one month before the actual transactions take place due to cost effectiveness considerations. Sony enters into foreign exchange transactions with financial institutions only for hedging purposes and does not undertake speculative transactions.

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

Changes in the fair value of derivatives designated as cash flow hedges, including foreign exchange forward contracts and foreign currency option contracts, are initially recorded in other comprehensive income and reclassified into earnings when the hedged transaction affects earnings. Foreign exchange forward contracts, foreign currency option contracts and other derivatives that do not qualify as hedges are marked-to-market with changes in value recognized in Other Income and Expenses. The notional amounts of foreign exchange forward contracts, currency option contracts purchased and currency option contracts written as of March 31, 2004 were 1,348.2 billion yen, 375.6 billion yen and 124.9 billion yen, respectively.

Operating Results for the Fiscal Year Ended March 31, 2003 compared with the Fiscal Year Ended March 31, 2002

Overview

Although the global economy showed some signs of growth in the fiscal year ended March 31, 2003, military action in Iraq contributed to increased economic uncertainty in the second half of the year, particularly in the U.S., and the year ended without any indications of a sustained recovery. In Japan, in addition to stagnant consumer demand and an increase in unemployment, declines in the stock market contributed to the unfavorable economic climate.

Table of Contents

Under such difficult market conditions and reflecting the impact of the translation of financial results into yen in accordance with U.S. GAAP, the currency in which Sony s financial statements are prepared, Sony s sales for the fiscal year ended March 31, 2003 decreased 1.4 percent compared with the previous fiscal year. This decrease was principally due to industry-wide declines in personal consumption in the Electronics segment, and also increased price competition in certain markets, including the PC, DVD-Video player and home-use video camera markets. However, operating income increased 37.7 percent compared with the previous fiscal year due to the beneficial effect of the depreciation of the yen against the euro, as well as increased profitability of the Electronics segment, resulting from restructuring initiatives in previous fiscal years, of the Game segment, due to increased software sales and decreased production costs, and of the Pictures segment, due to strong worldwide performance of certain releases in the fiscal year ended March 31, 2003.

On a local currency basis (regarding references to results of operations expressed on a local currency basis, refer to *Foreign Exchange Fluctuations and Risk Hedging* below), Sony s sales for the fiscal year ended March 31, 2003 decreased approximately 2 percent and operating income decreased approximately 5 percent compared with the previous fiscal year.

Restructuring

Restructuring charges for the fiscal year ended March 31, 2003 amounted to 106.3 billion yen, compared to 107.0 billion yen in the previous fiscal year. The primary restructuring activities were in the Electronics and Music segments.

Electronics

Restructuring charges in the Electronics segment for the fiscal year ended March 31, 2003, were 72.5 billion yen, compared to 86.9 billion yen in the previous fiscal year, but exceeded the 60.0 billion yen total that was estimated at the beginning of the year.

In the year ended March 31, 2003, a decision was made to reduce production capacity of CRT computer display manufacturing facilities in Japan and Southeast Asia, in response to market contraction resulting from the demand shift from CRT computer displays to flat panel displays such as LCDs. Although the worldwide market for CRT computer displays in the fiscal year ended March 31, 2002 was approximately 96.0 million units, in the fiscal year ended March 31, 2003 it had fallen to approximately 81.0 million units. In order to restore the profitability of the CRT computer display business, which, due to the decrease in demand, had been suffering from low utilization ratios at manufacturing facilities, higher ratios of fixed costs to sales and lower operating income margins, Sony decided to close under-utilized manufacturing facilities. The resulting charges totaled 6.9 billion yen, of which 1.3 billion yen was recorded in cost of sales, 1.7 billion yen was recorded in selling, general and administrative expenses, and 4.0 billion yen was recorded in loss on sale, disposal or impairment of assets, net.

The restructuring program implemented in the previous fiscal year was accelerated at Aiwa in response to a continued decline in operating performance, caused by further declines in the worldwide market for audio products, which form the majority of Aiwa s sales. After further reductions in personnel and reductions in the number of unprofitable product lines which resulted in the closure of all of Aiwa s manufacturing facilities, Aiwa s operations were integrated with those of Sony. (Aiwa became a wholly-owned subsidiary of Sony Corporation in October 2002, and merged into Sony Corporation on December 1, 2002.) Charges resulting from the restructuring of Aiwa totaled 23.0 billion yen, of which 13.8 billion yen was recorded in cost of sales, 5.7 billion yen in selling, general and administrative expenses, and 3.5 billion yen in loss on sale, disposal or impairment of assets, net.

In the fourth quarter of the fiscal year ended March 31, 2003, Sony decided to close a semiconductor plant in the U.S. that produced semiconductor wafers for both internal use and the original equipment manufacturer (OEM) market. This closure was both a response to a significant decline in the business conditions of the semiconductor industry in the U.S., and the result of a shift in Sony s semiconductor strategy. Sony s semiconductor manufacturing for internal use is moving toward an emphasis on high-end,

Table of Contents

network-centric devices and components because Sony is focusing its efforts on broadband and network-related businesses in response to rapid increases in broadband Internet access. The restructuring activity was completed in the year ended March 31, 2004 (refer to Restructuring under *Operating Results for the Fiscal Year Ended March 31, 2004*). During the fiscal year ended March 31, 2003, 5.9 billion yen was recorded for this restructuring, all of which was recorded in cost of sales.

In addition to these restructuring activities, Sony has continued to reduce headcount through the implementation of several early retirement programs in Japan to further reduce costs in the Electronics segment. The resulting charges totaled 10.9 billion yen, compared to 12.3 billion yen in the previous fiscal year. These charges were recorded in selling, general and administrative expenses.

Music

In response to the continued contraction of the worldwide music market due to slow worldwide economic growth, the saturation of the CD market, the effects of piracy and other illegal duplication, parallel imports, pricing pressures and the diversification of customer preferences brought on by increased competition from other entertainment sectors, Sony has been actively repositioning the Music segment for the future by looking to create a more effective and profitable business model. As a result, the Music segment has undertaken a worldwide restructuring program since the fiscal year ended March 31, 2001 to reduce staffing and other costs through the consolidation and rationalization of facilities worldwide. Under this worldwide restructuring program, SMEI incurred restructuring charges of 22.4 billion yen for the fiscal year ended March 31, 2003, compared to 8.6 billion yen in the previous fiscal year. This exceeded the estimate made in January 2003, as certain restructuring initiatives originally expected to be undertaken in the fiscal year ended March 31, 2004 were accelerated as a result of a management change and the continued decline in the worldwide music market. Of the 22.4 billion yen in total charges at SMEI, 19.1 billion yen was recorded in selling, general and administrative expense and 3.3 billion yen was recorded in loss on sale, disposal or impairment of assets, net.

Restructuring activities included the further consolidation of operations through the shutdown of a CD and cassette manufacturing and distribution center in Holland, the shutdown of a CD manufacturing facility in the U.S. (announced on April 2, 2003, although the decision to shut down the facility was made during the fiscal year ended March 31, 2003) as well as further staff reductions to consolidate various support functions across labels and operating units. These restructuring activities resulted in the termination of over 1,400 jobs during the fiscal year ended March 31, 2003, of which approximately 600 were in the U.S.

Total restructuring charges in the Music segment, including SMEJ, were 23.9 billion yen.

Table of Contents

The table below summarizes major restructuring activities for which charges of over 5 billion yen were recorded during the fiscal year ended March 31, 2003.

Segment	Nature of Restructuring	Costs incurred in the fiscal Year Ended March 31, 2003	Additional Information
Electronics	Reduction of CRT production capacity in Japan and SE Asia	6.9 billion yen	Remaining liability balance of 0.4 billion yen at March 31, 2003 was used during the fiscal year ended March 31, 2004.
	Personnel reductions and closure of all Aiwa s facilities	23.0 billion yen	No remaining liability balance at March 31, 2003.
	Closure of semiconductor plant in U.S.	5.9 billion yen	Remaining liability balance of 1.5 billion yen at March 31, 2003 was used during the fiscal year ended March 31, 2004.
	Early retirement program	10.9 billion yen	Remaining liability balance of 1.0 billion yen at March 31, 2003 was used during the fiscal year ended March 31, 2004.
Music	Closure of CD and cassette manufacturing and distribution facility in Holland, CD manufacturing facility in U.S., and others	23.9 billion yen	Remaining reserve balance of 11.5 billion yen at March 31, 2003 to be used by March 31, 2006. Estimated total charges at SMEI, for years ended March 31, 2001 to March 31, 2006, are 43.4 billion yen with an estimated 4.5 billion yen of these charges expected to be incurred in the future.

Operating Performance

	Year Ended March 31		
	2002	2003	Percent change
	(Yen in billions)		
Sales and operating revenue	7,578.3	7,473.6	-1.4%
Operating income	134.6	185.4	+37.7
Income before income taxes	92.8	247.6	+166.9
Net income	15.3	115.5	+654.5

Sales

Sales for the fiscal year ended March 31, 2003 decreased by 104.6 billion yen, or 1.4 percent, to 7,473.6 billion yen compared with the previous fiscal year. A further breakdown of sales figures is presented under *Operating Performance by Business Segment* below.

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

Cost of Sales and Selling, General and Administrative Expenses

Cost of sales for the fiscal year ended March 31, 2003 decreased by 260.2 billion yen, or 5.0 percent, to 4,979.4 billion yen compared with the previous fiscal year, and decreased from 74.2 percent to 72.0 percent as a percentage of sales. Year on year, the cost of sales ratio decreased from 80.5 percent to 78.8 percent in the Electronics segment, 74.7 percent to 70.2 percent in the Game segment, 64.0 percent to 61.5 percent in the Music segment, and 62.0 percent to 58.2 percent in the Pictures segment. The cost of sales ratio in the Electronics segment improved due to the effects of prior restructuring and other cost reduction measures, and the cost of sales ratio in the Game segment improved due to reductions in PlayStation 2 hardware production costs. These improvements occurred despite declining sales in the Electronics and Game segments. The cost of sales ratio in the Pictures segment improved due to increased revenue resulting from the strong worldwide performance, both theatrically and in home entertainment, of releases in the fiscal year ended March 31, 2003.

Although the cost of sales ratio decreased year on year, assisted by the positive effect of the appreciation of the euro against the yen on sales, the cost of sales ratio in the fourth quarter of the fiscal year ended March 31, 2003 increased due to declining sales and temporary reductions in production volume for the purpose of lowering inventory to target levels at the end of the fourth quarter. These production adjustments were carried out primarily in March 2003, mainly in the Electronics segment. Research and development costs (included in cost of sales) for the fiscal year ended March 31, 2003 increased by 9.9 billion yen, or 2.3 percent, to 443.1 billion yen compared with the previous fiscal year, with much of this increase in the Game segment. The ratio of research and development costs to sales increased from 6.1 percent to 6.4 percent.

Selling, general and administrative expenses for the fiscal year ended March 31, 2003 increased by 86.5 billion yen, or 5.1 percent, to 1,782.4 billion yen compared with the previous fiscal year. The ratio of selling, general and administrative expenses to sales increased from 23.9 percent in the previous fiscal year to 25.6 percent. Year on year, the ratio of selling, general and administrative expenses to sales increased from 18.9 percent to 20.3 percent in the Electronics segment, from 16.7 percent to 18.0 percent in the Game segment, from 32.7 percent to 39.8 percent in the Music segment, and from 32.8 percent to 34.4 percent in the Pictures segment.

Advertising and promotion expenses increased 40.8 billion yen mainly due to increased expenses in the Pictures segment, which contributed to increased box office and home entertainment revenue. Increased competition and the continued reduction in the time interval between theatrical and home entertainment release has resulted in a trend towards larger initial advertising expenditures. Personnel related costs increased 30.5 billion yen compared with the previous fiscal year, and have increased over each of the last three years. A major factor in this increase is the recording of increased severance related expenses, as Sony accelerates its restructuring activities. Severance-related charges in the fiscal year ended March 31, 2003 increased by 14.6 billion yen, or 23.3 percent, mainly in the Electronics and Music segments, to reach a total of 77.4 billion yen. Royalty expenses increased 16.9 billion yen.

The increase in selling, general and administrative expenses was partially offset by a 33.9 billion yen decrease in after-sales service expenses in the fiscal year ended March 31, 2003, caused mainly by the absence of non-recurring expenses recorded during the previous fiscal year due to mobile phone-related quality issues. The increase in selling, general and administrative expenses was also offset by a decrease of 10.0 billion yen in loss on the sale, disposal or impairment of assets, net. This was due to a 19.0 billion yen decrease in such losses in the Electronics segment, offset by a 6.4 billion yen increase in such losses in the Other segment.

The ratio of selling, general and administrative expenses to sales in the fourth quarter was 32.5 percent, an increase from 26.6 percent in the fourth quarter of the previous fiscal year. This was due to an increase in selling, general and administrative expenses and a decrease in sales compared with the same quarter of the previous fiscal year. Selling, general and administrative expenses increased primarily due to an increase in royalty expenses amounting to 23.3 billion yen. Sales decreased due to pricing pressure and discount selling of goods for the purpose of lowering inventory to target levels at the end of the quarter.

Operating Income

Operating income for the fiscal year ended March 31, 2003 increased by 50.8 billion yen, or 37.7 percent, to 185.4 billion yen compared with the previous fiscal year. Operating income margin increased from 1.8 percent to 2.5 percent. The segments making the most significant contributions to the year on year increase in operating income were the Electronics segment, the Game segment and the Pictures segment, in descending order of financial impact.

Other Income and Expenses

In the consolidated results for the fiscal year ended March 31, 2003, other income increased by 61.2 billion yen, or 63.5 percent, to 157.5 billion yen, while other expenses decreased by 42.8 billion yen, or 31.0 percent, to 95.3 billion yen, compared with the previous fiscal year. The net amount of other income and other expenses was net other income of 62.2 billion yen compared to net other expense of 41.9 billion yen in the previous fiscal year.

The increase in other income was primarily due to the recording of a 72.6 billion yen gain on sales of securities investments and other, net, for the year ended March 31, 2003. This was mostly due to a 66.5 billion yen gain on the sale, in April 2002, of Sony s equity interest in Telemundo, a U.S. based Spanish language television network and station group that was accounted for under the equity method. In addition, Sony deferred an approximate 6.0 billion yen gain on this sale due to provisions in the sale agreement that required a partial refund of the purchase price for certain losses or claims as defined in the agreement. The right of the acquirer to claim such refunds expired in April 2003 without any such claim being made. Therefore, Sony recorded an additional gain of 6.0 billion yen in April 2003. Gains were also recorded on the sale of the equity interest in Sony Tektronix Inc., which develops, manufactures and sells electronic measuring instruments and related devices, and Columbia House Company (CHC), a direct marketer of music and videos. Other income was positively impacted by a net foreign exchange gain of 1.9 billion yen recorded during the year, compared with a net foreign exchange loss of 31.7 billion yen recorded in the previous fiscal year. The net foreign exchange gain recorded during the year was primarily due to gains incurred on foreign exchange forward contracts and foreign currency option contracts, which Sony employs to hedge the risk from exchange rate fluctuations, while the foreign exchange losses recorded during the previous fiscal year were due to losses incurred on such contracts due to the rapid depreciation of the yen between December 2001 and March 2002. Compared to the previous fiscal year, interest and dividends received decreased from 16.0 billion yen in the previous fiscal year to 14.4 billion yen, primarily due to lower interest earned from investments.

The decrease in other expenses was primarily due to the absence of the net foreign exchange loss recorded in the previous fiscal year as noted above. Interest expense also decreased by 9.1 billion yen, or 25.0 percent, to 27.3 billion yen, primarily due to lower average balances of short-term borrowings and lower interest rates. As a result, the amount of income from interest and dividends less interest expense improved to a net expense of 12.9 billion yen, compared with a net expense of 20.4 billion yen in the previous fiscal year. Partially offsetting the decrease in other expenses was an increase of 4.7 billion yen, or 25.7 percent, to 23.2 billion yen, in losses on the devaluation of securities investments, including securities issued by companies in the U.S. and Europe with which Sony has strategic relationships for the purpose of developing and marketing new technologies. Such companies include Canal+ Technologies, a developer of middleware and conditional access technologies for digital broadcasting, TIVO Inc., a marketer of digital video recorders, and Transmeta Corporation, a chip manufacturer.

Income before Income Taxes

Income before income taxes for the fiscal year ended March 31, 2003 increased by 154.8 billion yen, or 166.9 percent, to 247.6 billion yen compared with the previous fiscal year. Significant contributors to the year on year increase in income before income taxes, in descending order of significance, were the increase in operating income, the increase in gains on sales of securities investments and other, net, and the absence of the foreign exchange loss recorded in the previous fiscal year.

Income Taxes

Income taxes for the fiscal year ended March 31, 2003 increased by 15.6 billion yen, or 24.0 percent, to 80.8 billion yen. The increase in income tax was principally due to the increase in income before income taxes described above, although this increase was partially offset by a tax benefit of 51.9 billion yen recorded due to the reversal of valuation allowances on deferred tax assets held by Aiwa as these assets became recoverable as a result of Sony s decision to merge with Aiwa.

The ratio of income taxes to income before income taxes (the effective tax rate) decreased from 70.3 percent in the previous fiscal year to 32.6 percent.

Results of Affiliated Companies Accounted for under the Equity Method

During the fiscal year ended March 31, 2003, equity in net losses of affiliated companies increased from 34.5 billion yen in the previous fiscal year to 44.7 billion yen. Sony Ericsson, a joint venture focused on mobile phone handsets recorded a 20.8 billion yen loss. In addition, equity affiliates recording losses included ST-LCD, an LCD joint venture in Japan, Crosswave, a data communications carrier offering customers broadband networks and network services in Japan, and BE-ST Bellevuestrasse Development GmbH & Co. First Real Estate KG, Berlin, a real estate business in Germany. Regarding the significant losses at Sony Ericsson, no year on year comparison is available because Sony Ericsson was established in October 2001. However, the loss of 10.7 billion yen recorded due to Sony Ericsson in the second half of the fiscal year ended March 31, 2003 was greater than the 7.4 billion yen loss recorded in the second half of the fiscal year ended March 31, 2002. This increase in losses was due to the following factors: decreased sales in the fourth quarter ended March 31, 2003, compared to the fourth quarter ended March 31, 2002, due to increased pricing pressure; increased expenses due to the phase-in of new products in the GSM and Japanese markets; and the recording of an operating loss in the fourth quarter ended March 31, 2003 compared to income in the fourth quarter ended March 31, 2002, which benefited from the successful introduction of two high-end models in the Japanese and European markets. In the fourth quarter ended March 31, 2003, Sony and Telefonaktiebolaget LM Ericsson each invested an additional 150 million euro in Sony Ericsson to strengthen its financial position (refer to Electronics , above).

In the first quarter of the fiscal year ended March 31, 2003, SPE and other non-Sony investors sold Telemundo to NBC, a media company owned by the General Electric Company. In the same quarter, SMEI and AOL Time Warner Inc. s Warner Music Group each sold the majority of their holding in CHC to Blackstone Capital Partners, an affiliate of The Blackstone Group, an investment bank. The Chairman of the Blackstone Group was a director of Sony Corporation until June 2002.

Minority Interest in Income (Loss) of Consolidated Subsidiaries

In the fiscal year ended March 31, 2003, minority interest in the income of consolidated subsidiaries, which is excluded from income before income taxes, was 6.6 billion yen, compared to a 16.2 billion yen minority interest in the loss of consolidated subsidiaries recorded in the previous fiscal year. This change was principally due to the reversal of valuation allowances on deferred tax assets held by Aiwa and because Sony no longer recorded a minority interest in Aiwa s losses as Sony took Aiwa private in October 2002.

Table of Contents

Net Income

Net income for the fiscal year ended March 31, 2003 increased by 100.2 billion yen, or 654.5 percent, to 115.5 billion yen compared with the previous fiscal year. As a percentage of sales, net income increased from 0.2 percent to 1.5 percent. The most significant contribution to the year on year increase in net income was the increase in income before income taxes. However the effect of the minority interest in the income of consolidated subsidiaries, the absolute increase in income taxes, and the increase in losses in equity of affiliated companies caused net income to be 132.1 billion yen less than income before income taxes, compared to a difference of 77.5 billion yen in the previous fiscal year.

The return on stockholders equity increased from 0.7 percent to 5.0 percent. (This ratio is calculated by dividing net income by the simple average of stockholders equity at the end of the previous fiscal year and at the end of the fiscal year ended March 31, 2003.)

Basic net income per share was 125.74 yen compared with 16.72 yen in the previous fiscal year, and diluted net income per share was 118.21 yen compared with 16.67 yen in the previous fiscal year. Refer to Notes 2 and 20 of Notes to Consolidated Financial Statements.

Operating Performance by Business Segment

The following discussion is based on segment information. Sales and operating revenue in each business segment include intersegment transactions. Refer to Note 23 of Notes to Consolidated Financial Statements.

Business Segment Information

	Year Ended March 31		
	2002	2003	Percent change
	(Yen in billions)		
Sales and Operating revenue			
Electronics	5,286.2	4,940.5	-6.5%
Game	1,003.7	955.0	-4.9
Music	600.1	597.5	-0.4
Pictures	635.8	802.8	+26.3
Financial Services	509.1	537.3	+5.5
Other	261.5	306.3	+17.1
Elimination	(718.1)	(665.7)	
Consolidated	7,578.3	7,473.6	-1.4

	Year Ended March 31		
	2002	2003	Percent change
	(Yen in billions)		
Operating income (loss)			
Electronics	(1.2)	41.4	
Game	82.9	112.7	+35.9%
Music	22.1	(7.9)	
Pictures	31.3	59.0	+88.6
Financial Services	21.8	22.8	+4.3
Other	(18.2)	(25.0)	
Elimination and unallocated corporate expenses	(4.1)	(17.5)	
Consolidated	134.6	185.4	+37.7

Commencing with the first quarter ended June 30, 2003, Sony partly realigned its business segment configuration. Expenses incurred in connection with the creation of a network platform business were transferred out of the Other segment and reclassified as unallocated corporate expenses, because the expected future benefits of this business will be spread across the Sony Group. In accordance with this realignment, results of the fiscal years ended March 31, 2002 and 2003 have been reclassified to conform to the presentation for the fiscal year ended March 31, 2004.

The above reclassification also reflects the effect of Sony s realignment of its business segment configuration and Electronics segment product category configuration from the first quarter ended June 30, 2002. From the first quarter ended June 30, 2002, sales of businesses devoted to the creation of a network platform business and of businesses devoted to the development of network and content technology and services have been included in the Other segment. In addition to SCN, which was originally contained in the Other segment, these businesses include an in-house oriented information system service business and an IC card business formerly contained in the Other category of the Electronics segment.

Electronics

Sales for the fiscal year ended March 31, 2003 decreased by 345.7 billion yen, or 6.5 percent, to 4,940.5 billion yen compared with the previous fiscal year. Operating income of 41.4 billion yen was recorded compared to an operating loss of 1.2 billion yen in the previous fiscal year. The year on year decrease in sales was due to the continued industry-wide effects of falling consumption in markets for certain products in the Electronics segment, increased price competition worldwide, and the impact of business withdrawals and rationalization of product lines (refer to Note 16 of Notes to Consolidated Financial Statements).

Regarding sales to outside customers by geographic area, sales decreased by 12 percent in the U.S. and by 9 percent in Japan, but sales increased by 2 percent in Europe and Other Areas, respectively. Sales decreased in the U.S. over a wide range of products including, in descending order of financial impact, PCs, computer displays, Aiwa products, CRT televisions, DVD-Video players, home-use video cameras, home audio and CD-R/ RW drives. Sales in the U.S. were also negatively impacted by Sony s withdrawal from the home telephone business in 2001. Products with increased sales in the U.S. included personal digital assistants, projection televisions and digital still cameras. In Japan, overall demand decreased substantially, with PCs, Aiwa products, home-use video cameras and CRT televisions showing year on year sales declines; however, sales of semiconductors increased. In Europe, sales of PCs, digital still cameras and digital home-use video cameras showed strong sales growth, while sales of Aiwa products and computer displays decreased. Sales in Europe were also positively impacted by the strength of the euro against the yen in the second half of the year. In Other Areas, sales of digital still cameras, home-use video cameras and PCs increased while sales of Aiwa products and broadcast- and professional-use products decreased. The transfer of Sony s mobile phone business to Sony Ericsson, an affiliate accounted for under the equity method since October 2001, also had a negative impact on sales, particularly in Japan and Europe. This was because before the transfer of the business to Sony Ericsson, Sony handled all aspects of the mobile phone operation from manufacturing through to sales, while now Sony only manufactures handsets for Sony Ericsson and Sony Ericsson is responsible for the remainder of the operation. These sales are recorded in the Electronics segment.

The sales decrease during the fiscal year ended March 31, 2003, accelerated in the fourth quarter, as sales decreased by 227.0 billion yen, or 18.1 percent, to 1,025.3 billion yen compared to the fourth quarter of the previous fiscal year. This was principally due to declines in sales, in descending order of financial impact, of PCs, CRT televisions, Aiwa products, computer displays, home-use video cameras and home audio.

Performance by Product Category

Sales and operating revenue by product category discussed below represent sales to customers, which do not include intersegment transactions. Refer to Note 23 of Notes to Consolidated Financial Statements.

Audio sales decreased by 65.0 billion yen, or 8.7 percent, to 682.5 billion yen. Sales of home audio declined in all geographic areas, although sales of home theater systems increased principally in Europe and the U.S. Regarding headphone stereos, MD format sales increased due to rapid market growth particularly in the U.S. However, CD format headphone stereos sales decreased overall due to the contraction of the U.S. market, although such sales rose strongly in Europe aided by continued market expansion and the depreciation of the yen against the euro. Sales of both formats declined in Japan. Overall sales for the cassette format decreased due to the continued contraction of the market in all areas. Worldwide shipments of MD format headphone stereos increased by approximately 370,000 units to approximately 3.32 million units. Worldwide shipments of CD format headphone stereos increased by approximately 250,000 units to approximately 10.72 million units. Sales of home telephones declined because of Sony s withdrawal from the home telephone business in the U.S. and Japan in the previous fiscal year.

Video sales increased by 3.8 billion yen, or 0.4 percent, to 851.1 billion yen. The increase was principally due to higher sales of digital still cameras in all areas and digital home-use video cameras in Other Areas, particularly Asia, and Europe. Worldwide shipments of digital still cameras increased by approximately 2.2 million units to approximately 5.6 million units. Worldwide shipments of home-use video cameras, both analog and digital, increased by approximately 350,000 units to approximately 5.75 million units. However, analog home-use video camera sales decreased due to lower demand, particularly in the U.S. Overall sales of home-use video cameras decreased in Japan and the U.S. due to increased price competition. DVD-Video player sales decreased primarily in the U.S. where pricing pressure was severe, although the market expanded. Sales from set-top boxes decreased due to a decline in unit sales in the U.S. and Europe.

Televisions sales decreased by 34.1 billion yen, or 3.5 percent, to 950.2 billion yen. One factor leading to the decrease was a substantial decline in CRT television sales in the U.S. and Japan, as a result of market contraction, although sales in Europe increased partly due to the appreciation of the euro against the yen. Worldwide shipments of CRT televisions were approximately 10 million units, almost flat compared with the previous fiscal year. Another factor causing the decrease was a decline in sales of CRT computer displays in the U.S., Europe and Japan, resulting from the shift in demand towards flat panel computer displays. A third factor was a decrease in the sales of CRTs, reflecting the decline in the market for CRT televisions and CRT computer displays. Offsetting these decreases were higher sales of large-screen projection televisions, particularly in the U.S., and plasma and LCD flat panel televisions.

Information and Communications sales decreased by 162.0 billion yen, or 16.2 percent, to 836.7 billion yen. The decrease was primarily due to lower sales of PCs and broadcast- and professional-use products. Further, since October 2001, when Sony began recording mobile phone handset sales as sales to Sony Ericsson in Other , no sales of mobile phone handsets have been recorded under Information and Communications . Sales of PCs decreased in Japan and the U.S. due to increased price competition.

Worldwide shipments of PCs decreased by approximately 400,000 units to approximately 3.1 million units. Sales of personal digital assistants increased significantly, particularly in the U.S. and Europe, as the market for these products expanded. Sales of broadcast- and professional-use products decreased as many broadcasters postponed the installation of new systems due to economic uncertainty.

Semiconductors   sales increased by 22.4 billion yen, or 12.3 percent, to 204.7 billion yen. The increase was primarily due to a significant increase in sales of CCDs, particularly in Japan and Other Areas, reflecting higher demand for digital still cameras, and a significant increase in sales of bipolar integrated circuits for CD-R/ RW and DVD drives, particularly in Japan. Partially offsetting the above increase was a decrease in sales revenue from high temperature LCDs in all geographic areas due to pricing pressure.

Components   sales increased by 16.2 billion yen, or 3.2 percent, to 527.8 billion yen. The increase was primarily due to significant increases in sales of DVD drives, Memory Stick and batteries. DVD drive sales increased as the strong performance of Sony branded products, particularly in the U.S., allowed Sony to avoid unit price reductions. Memory Stick sales increased due to continued demand for digital still cameras, with worldwide shipments of Memory Stick increasing by approximately 8 million units to approximately 19 million units. At the end of the fiscal year ended March 31, 2003, Sony s cumulative shipments of Memory Stick had reached 39 million units. Regarding batteries, the growing market for lithium-ion batteries led to strong revenue growth despite declines in the average selling price. On the other hand, sales of CD-R/ RW drives decreased due to severe price competition.

Other   sales decreased by 10.5 billion yen, or 2.1 percent, to 490.4 billion yen, primarily due to lower sales of Aiwa products in all geographic areas. This decrease was partially offset by the sales of mobile phone handsets which were transferred from   Information and Communications   to   Other   in October 2001, as a result of their becoming sales to Sony Ericsson.

In the Electronics segment, cost of sales for the fiscal year ended March 31, 2003 decreased by 368.5 billion yen, or 8.7 percent to 3,869.2 billion yen compared with the previous fiscal year. This decrease was due to the effects of restructuring carried out in the previous fiscal year in CRTs and other products, the increased profitability as a result of increased sales in semiconductors, batteries and other products, and the favorable impact of the appreciation of the euro against the yen. A majority of goods sold in Europe are imported from other regions; therefore an appreciation of the euro causes increased sales without a corresponding increase in the cost of sales. Research and development costs were 380.3 billion yen, almost flat year on year. The cost of sales ratio decreased from 80.5 percent to 78.8 percent.

Selling, general and administrative expenses decreased by 0.8 billion yen, or 0.1 percent to 1,000.8 billion yen compared with the previous fiscal year. After-sales service expenses decreased by 36.5 billion yen, partially because of the absence of mobile phone-related after-sales service expenses recorded in the previous fiscal year. Royalty expenses increased 16.9 billion yen. The ratio of selling, general and administrative expenses to sales increased from 18.9 percent to 20.3 percent due to the decrease in sales.

Loss on sale, disposal or impairment of assets, net also decreased, by 19.0 billion yen, primarily because of a decrease in restructuring charges related to reductions in CRT computer display manufacturing capacity, mainly in the U.S. In the fiscal year ended March 31, 2003, due to CRT computer display related restructuring in Japan and South-East Asia, a restructuring charge of 4.0 billion yen was recorded in loss on sale, disposal or impairment of assets, net.

Regarding profit performance by product compared with the previous fiscal year, the largest gains in operating income were recorded in CRTs, portable audio, batteries, CRT televisions, recording media and digital still cameras. Increased demand for semiconductors resulted in a substantial decrease in the size of losses. On the other hand, losses increased in PCs and Aiwa products. Restructuring carried out in the previous fiscal year also led to improved profitability in several component businesses, including CRTs and recording media, as a result of the reduction of fixed costs and the concentration of resources toward

Table of Contents

successful products. Also contributing to the increase in profitability was the withdrawal from the loss-making home telephone business and the transfer, in October 2001, of Sony s mobile handset business, which was recording a loss, to Sony Ericsson. Further, operating income benefited from the depreciation of the yen against the euro, which exceeded the negative impact of the appreciation of the yen against the U.S. dollar.

Partially offsetting the increase in profitability were losses recorded in PCs, where sales declined due to increased competition from lower priced products. Large operating losses were also recorded by Aiwa in almost all geographic areas as a result of reduced sales because of a decline in the competitiveness of Aiwa s mainstay products such as audio, restructuring charges including costs of headcount reductions, inventory write-downs brought about by the elimination of product lines, and the sale and disposal of production facilities. Sony Corporation absorbed Aiwa by merger on December 1, 2002.

In the past Sony has recorded losses in the fourth quarter, due to a seasonal decline in demand for electronics products. However, the loss in the fourth quarter of the fiscal year ended March 31, 2003 increased substantially due to, in descending order of financial impact, a decline in sales, an increase in selling, general and administrative expenses associated with an increase in patent-related and other expenses, and a deterioration in the cost of sales ratio due to reductions in production undertaken to lower inventory to target levels and pricing pressure. Fourth quarter operating losses in the Electronics segment totaled 116.1 billion yen compared with an operating loss of 51.3 billion yen in the same quarter of the previous fiscal year. Significant losses were recorded by products including Aiwa products, semiconductors, digital still cameras and home audio. An approximate 5.9 billion yen restructuring charge for the closure of a semiconductor plant in the U.S. impacted the loss in the semiconductor business.

Manufacturing by Geographic Area

Regarding the geographic breakdown of total annual production in the Electronics segment (including the assembly of PlayStation 2 for the Game segment), and the final destination of such production, half of total production was in Japan, including production of digital still cameras, semiconductors, personal digital assistants, components (including batteries and Memory Stick), and plasma televisions. Approximately 55 percent of production in Japan was destined for other regions. Asia, here excluding Japan and China, accounted for more than 15 percent of total production, more than 60 percent of which was destined for Japan, the U.S. and Europe. China accounted for less than 10 percent of total production, more than 70 percent of which was destined for Japan, the U.S. and Europe. The Americas and Europe together accounted for the remaining quarter of total production, most of which was sold in the area where it was produced.

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

Results in the Electronics segment, on a yen basis, were positively impacted overall by the appreciation of the euro against the yen, although this impact was partially offset by the negative impact of the depreciation of the U.S. dollar against the yen. On a local currency basis, sales for the fiscal year ended March 31, 2003 decreased by approximately 7 percent compared with the previous fiscal year and operating income was recorded where an operating loss had been recorded in the previous fiscal year.

Due to the negative impact of the depreciation of the U.S. dollar against the yen, year on year increases in sales of products in the U.S. were generally smaller, and decreases generally larger, when stated in yen than when stated on a local currency basis. However, no products which recorded a sales increase on a local currency basis recorded a sales decrease on a yen basis.

Sales in Europe were positively affected by currency fluctuations, in particular the appreciation of the euro against the yen. Year on year increases in sales of products in Europe were generally larger, and decreases generally smaller, when stated in yen than when stated on a local currency basis. Regarding significant differences between results on a yen basis and results on a local currency basis, CRT televisions and home-use video cameras recorded an increase in sales on a yen basis but a decrease in sales on a local currency basis while portable audio and batteries, which all recorded increases in sales on a yen basis, were flat year on year on a local currency basis.

The net effect of currency fluctuations on product sales in Other Areas was negative. Sales increases were generally smaller, and decreases larger, when stated in yen than when stated on a local currency basis. Regarding significant differences between results on a yen basis and results on a local currency basis, sales of CRT televisions were flat year on year on a local currency basis but showed a slight decrease on a yen basis. Sales trends for other products were not significantly different on a local currency basis or a yen basis.

Game

Sales for the fiscal year ended March 31, 2003 decreased by 48.7 billion yen, or 4.9 percent, to 955.0 billion yen compared with the previous fiscal year. Operating income increased by 29.7 billion yen, or 35.9 percent, to 112.7 billion yen compared with the previous fiscal year, and the operating income margin increased from 8.3 percent to 11.8 percent.

Sales in the Game segment were positively impacted by the yen s depreciation against the euro. On a local currency basis, sales for the fiscal year ended March 31, 2003 decreased approximately 7 percent and operating income increased 12 percent compared with the previous fiscal year.

Regarding sales by geographic area, sales decreased in Japan and the U.S. but increased in Europe. In Japan, hardware sales declined due to lower unit sales of PlayStation 2 hardware, brought on by a stagnation of the game industry, and a price reduction of PlayStation 2 hardware. Software sales decreased slightly due to lower unit sales of software published by SCE. As a result overall sales in Japan decreased. In the U.S., unit sales of PlayStation 2 hardware increased mainly due to strategic price reductions. Despite an increase in unit sales, hardware sales decreased due to the negative impact of the price reductions exceeding the positive impact of the increase in unit sales. Software sales increased due to an increase in unit sales brought on by an expansion of the software market as a result of the increase in hardware unit sales. As the decrease in hardware sales exceeded the increase in software sales, overall sales in the U.S. decreased. In Europe the market penetration of PlayStation 2 hardware continued to expand as hardware unit sales increased mainly in Western Europe, primarily due to a strategic price reduction of PlayStation 2 hardware. As a result, software sales increased and overall sales in Europe increased. The depreciation of the yen against the euro also had a positive impact on sales in Europe.

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

	Year Ended March 31		Cumulative as of
	2002	2003	March 31, 2003
	(Million units)		
Total Production Shipments of Hardware			
PlayStation + PS one	7.40	6.78	96.41
PlayStation 2	18.07	22.52	51.20
Total Production Shipments of Software*			
PlayStation	91.00	61.00	917.00
PlayStation 2	121.80	189.90	350.00

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

In terms of total software unit sales, PlayStation 2 titles represented 76 percent of the software unit sales for the fiscal year ended March 31, 2003, an increase from 57 percent of software unit sales recorded in the previous fiscal year.

In terms of profitability, operating income increased as compared with the previous fiscal year. This increase was due to an improvement in profitability of the hardware business as a result of a reduction in

Table of Contents

the cost of producing PlayStation 2 hardware and the positive impact of the yen s depreciation against the euro. The increase in operating income was also due to an increase in profitability of the software business brought on by an increase in unit sales mainly in the U.S. and Europe. Cost of sales in the Game segment decreased due to a decrease in manufacturing-related expenses of PlayStation 2 hardware, resulting in a decrease in the ratio of cost of sales to sales compared to the previous fiscal year. Although selling, general and administrative expenses increased primarily due to an increase in advertising and promotion expenses in conjunction with the increase in units sold, the ratio of selling, general and administrative expenses to sales decreased as compared to the previous fiscal year.

Music

Sales for the fiscal year ended March 31, 2003 decreased by 2.5 billion yen, or 0.4 percent, to 597.5 billion yen compared with the previous fiscal year. Compared to operating income of 22.1 billion yen in the previous fiscal year, an operating loss of 7.9 billion yen was recorded.

On a local currency basis, sales in the Music segment increased by 1 percent while the Music segment incurred an operating loss as compared to operating income in the previous fiscal year.

Sales at SMEI increased approximately 6 percent on a U.S. dollar basis (refer to *Foreign Exchange Fluctuations and Risk Hedging* below). In terms of profitability, SMEI incurred an operating loss in the current year as compared to operating income in the previous fiscal year. The increase in sales was primarily due to an increase in sales of DVD software, manufactured in the Music segment, to the Pictures and Game segments. Sales to the Pictures segment increased as a result of the greater popularity of DVD media in the home entertainment market and sales to the Game segment increased due to higher unit sales of PlayStation 2 software titles, which are packaged on DVDs. Partially offsetting the increase in sales at SMEI was a decline in album sales in many regions worldwide. Album sales at SMEI have been declining due to the continued contraction of the global market for music. Industry-wide album unit sales in the U.S. decreased for 19 consecutive months up to and including March 2003. Such sales in the fiscal year ended March 31, 2003 were 10 percent lower than in the previous fiscal year. This contraction trend has been caused by slow economic growth, the saturation of the CD market, the effects of digital piracy and other illegal duplication, parallel imports, pricing pressures and a diversification of customer preferences brought on by increased competition from other entertainment sectors.

The decline in profitability resulting in an operating loss at SMEI primarily resulted from a 120 million U.S. dollar year on year increase in restructuring charges undertaken to reduce costs in response to the downward trend of the market. The total cost of restructuring for the fiscal year ended March 31, 2003 was 190 million U.S. dollars, or 22.4 billion yen (refer to Restructuring above for details) net of a reversal of an expense of 30.8 million U.S. dollars accrued in previous fiscal years as a result of reduced compensation expense. The second largest factor leading to the operating loss was a decrease in gross profit brought about by the decrease in album sales. A third factor leading to operating loss was an increase in talent-related expenses, primarily because the continued decline in album sales led to an increase in impairments of capitalized advances paid to artists. Partially offsetting the decline in operating profitability, in descending order of magnitude, were a decrease in advertising and promotion expenses, savings realized from previously implemented restructuring initiatives and higher income generated by the increase in DVD software manufacturing activity. Although restructuring charges increased significantly compared with the previous fiscal year, the decrease in advertising and promotion expenses and savings realized from previously implemented restructuring initiatives caused a decrease in selling, general and administrative expenses for the year and an improvement in the ratio of selling, general and administrative expenses to sales.

Regarding the results of SMEJ, sales decreased by 10 percent and operating income decreased 59 percent year on year. Sales decreased due to the continued contraction of the music industry. The decrease in operating income resulted from the decrease in sales and, to a lesser extent, an increase in severance-related expenses incurred from restructuring. Restructuring activity at SMEJ during the fiscal year centered on headcount reductions.

On a yen basis, 76 percent of the Music segment s sales were generated by SMEI while 24 percent were generated by SMEJ.

Pictures

Sales for the fiscal year ended March 31, 2003 increased by 167.0 billion yen, or 26.3 percent, to 802.8 billion yen compared with the previous fiscal year. Operating income increased by 27.7 billion yen, or 88.6 percent, to 59.0 billion yen and the operating income margin increased from 4.9 percent to 7.3 percent. The results in the Pictures segment consist of the results of SPE.

On a U.S. dollar basis, sales for the fiscal year in the Pictures segment increased approximately 30 percent and operating income increased approximately 92 percent. The increase in sales was due to the strong worldwide performance, both theatrically and in home entertainment, of fiscal year releases including *Spider-Man,* the highest grossing film in SPE s history, *Men in Black II, xXx* and *Mr. Deeds.* The increased worldwide popularity of DVDs also contributed to the higher home entertainment revenues. As a result of these factors, sales for the release slate for the fiscal year ended March 31, 2003 increased 1.6 billion U.S. dollars compared with the previous fiscal year s slate. Operating income for the segment increased significantly due to the higher theatrical and home entertainment revenues from the fiscal year release slate, partially offset by the aggregate disappointing performance of several films including *I Spy* and *Stuart Little 2*, resulting in an increase of 221 million U.S. dollars in profit from the fiscal year release slate, the benefit of restructuring initiatives undertaken in the previous fiscal year, resulting in an increase of 52 million U.S. dollars, and, less significantly, increased operating income in the television business due to higher revenues from the game show, *Wheel of Fortune*. The primary benefit of the restructuring undertaken in the previous fiscal year was a reduction in losses recorded on the production of new network television shows and pilots. Losses declined because the number of new shows and pilots was reduced and because production expenses per new show and pilot were reduced. Operating income for the segment was also higher because the 67 million U.S. dollar, or 8.5 billion yen, restructuring charge recorded in the previous fiscal year was not recorded during the fiscal year (refer to Restructuring for details). Partially offsetting the increase in operating income was an additional provision of 66 million U.S. dollars, an increase of 26 million U.S. dollars over the previous fiscal year, with respect to previously recorded revenue from KirchMedia, an insolvent licensee in Germany of SPE s feature film and television product, and related adjustments to ultimate film income.

As of March 31, 2003, unrecognized license fee revenue at SPE was approximately 1.3 billion U.S. dollars. SPE expects to record this amount in the future having entered into contracts with television broadcasters to provide those broadcasters with completed motion picture and television product. The license fee revenue will be recognized in the year that the product is available for broadcast.

Financial Services

Financial Services revenue for the fiscal year ended March 31, 2003 increased by 28.2 billion yen, or 5.5 percent, to 537.3 billion yen compared with the previous fiscal year. Operating income increased by 0.9 billion yen, or 4.3 percent, to 22.8 billion yen and the operating income margin decreased from 4.3 percent to 4.2 percent.

At Sony Life, revenue increased by 19.5 billion yen, or 4.4 percent, to 466.6 billion yen and operating income increased by 1.8 billion yen, or 6.4 percent, to 29.6 billion yen compared with the previous fiscal year. Insurance revenue increased as insurance-in-force from individual life insurance products increased due to the maintenance of a lower than industry average rate of contract cancellation, despite a decrease in new insurance sales brought about by a decrease in disposable family incomes due to continued weak economic conditions. The increase in revenue also resulted from an improvement in the valuation gains and losses from investments in the general account which occurred because loss recorded due to the devaluation of Argentine government bonds held in that account decreased significantly compared with the previous fiscal year. On the other hand, the increase in Sony Life s revenue was partially offset by a deterioration of valuation gains and losses from investments in the separate account, which resulted from

Table of Contents

the stock market downturn. Operating income increased because of the increase in insurance revenue that accompanied the increase in insurance-in-force from individual life insurance products and the improvement in valuation gains and losses from investments in the general account mentioned above. Valuation gains and losses from investments in the separate account accrue directly to the account of policyholders and, therefore, do not affect operating income.

At Sony Assurance, revenue increased due to higher insurance revenue brought about by an expansion in automobile insurance-in-force reflecting greater customer awareness of the benefit of flexible insurance policies which take into account mileage driven. Regarding profit performance, an operating loss was recorded in the fiscal year ended March 31, 2003, as was the case in each of the previous three fiscal years. The loss was recorded because essential investments necessary for the expansion of the business put pressure on profitability. These investments were for advertising and for computer systems necessary to develop new products and establish customer claims service centers. However, an increase in insurance revenue and a decrease in the expense ratio (the ratio of operating expenses to premiums) and the loss ratio (the ratio of insurance payouts to premiums) caused losses to decrease.

At Sony Finance, revenue decreased slightly due to a decrease in rent revenue despite an increase in leasing revenue. In terms of profitability, a loss was recorded, compared with an operating income in the previous fiscal year, due to an increase in operating expenses in connection with the issuance of credit cards that utilize contact-free IC card technology.

Sony Bank, which started business in June 2001, recorded a loss, as was also recorded in the previous fiscal year, primarily due to start-up expenses.

* The revenue and operating income at Sony Life, Sony Assurance and Sony Bank discussed here differ from the results that Sony Life, Sony Assurance and Sony Bank disclose on a Japanese statutory basis.

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

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

Table of Contents

Reflecting the realignment of the business segment configuration, results for fiscal year ended March 31, 2002, and 2003 have been reclassified to conform to the presentation for the fiscal year ended March 31, 2004.

	Financial Services		All other segments excluding Financial Services		Consolidated	
Year Ended March 31	2002	2003	2002	2003	2002	2003
			(Yen in millions)			
Financial Services revenue	509,122	537,276			480,190	509,398
Net sales and operating revenue			7,105,491	6,974,980	7,098,068	6,964,235
	509,122	537,276	7,105,491	6,974,980	7,578,258	7,473,633
Costs and expenses	487,300	514,518	6,992,254	6,811,292	7,443,627	7,288,193
Operating income	21,822	22,758	113,237	163,688	134,631	185,440
Other income (expenses), net	(1,833)	(1,282)	(40,451)	67,846	(41,856)	62,181
Income before income taxes	19,989	21,476	72,786	231,534	92,775	247,621
Income taxes and other	11,477	13,071	72,799	120,089	83,443	132,102
Cumulative effect of accounting changes	4,305		1,673		5,978	
Net income	12,817	8,405	1,660	111,445	15,310	115,519

Other

Reflecting the realignment of the business segment configuration, results for fiscal year ended March 31, 2002, and 2003 have been reclassified to conform to the presentation for the fiscal year ended March 31, 2004. Based on that reclassification, sales of the Other segment in the fiscal year ended March 31, 2003 were comprised mainly of an in-house oriented information system service business, an advertising agency business in Japan, and SCN, an Internet-related service business subsidiary operating mainly in Japan.

Sales for the fiscal year increased by 44.8 billion yen, or 17.1 percent, to 306.3 billion yen, compared with the previous fiscal year. Of total sales, 55 percent were sales to outside customers. In terms of profit performance, operating losses for the segment increased from 18.2 billion yen to 25.0 billion yen.

During the fiscal year, intersegment sales increased primarily due to an increase in sales at the advertising agency business in Japan due to its taking over the media buying for all Sony Group companies in Japan, and at the in-house oriented information system service business, in addition to an increase in sales at SCN. Regarding profit performance, the segment recorded a loss primarily due to expenses associated with the development of network and content technology and services, intended to facilitate new businesses in the broadband age, and the advertising agency business in Japan. In comparison with the previous fiscal year, segment losses increased primarily due to an increase in the aforementioned expenses and the write-off of professional-use video software in the professional-use video software business due to a discontinuation of that business. Operating losses for the Other segment increased despite the fact that operating income was recorded at SCN, as compared to an operating loss in the previous fiscal year. SCN recorded operating income due to an increase in sales resulting from a rise in broadband subscribers and a reduction in costs associated with communication line usage.

Foreign Exchange Fluctuations and Risk Hedging

During the fiscal year ended March 31, 2003, the average value of the yen was 120.9 yen against the U.S. dollar, and 119.5 yen against the euro, which was 2.6 percent higher against the U.S. dollar and 8.8 percent lower against the euro, respectively, compared with the average of the previous fiscal year. Operating results on a local currency basis described in Overview and Operating Performance show

Table of Contents

results of sales and operating income obtained by applying the yen s monthly average exchange rate in the previous fiscal year to monthly local currency-denominated sales, cost of sales, and selling, general and administrative expenses for the fiscal year ended March 31, 2003, as if the value of the yen had remained constant. In the Music segment, Sony consolidates the yen-translated results of SMEI (a U.S. based operation that aggregates the results of its worldwide subsidiaries on a U.S. dollar basis) and the results of SMEJ (a Japan based operation that aggregates the results of its operations in yen). In the Pictures segment, Sony translates into yen the U.S. dollar consolidated results of SPE (a U.S. based operation that has worldwide subsidiaries). Therefore, in the results of SMEI and SPE, analysis and discussion of certain portions of their operating results are specified as being on a U.S. dollar basis. Results on a local currency basis and results on a U.S. dollar basis are not on the same basis as Sony s consolidated financial statements and do not conform with U.S. GAAP. In addition, Sony does not believe that these measures are a substitute for U.S. GAAP measures. However, Sony believes that local currency basis results provide additional useful information to investors regarding operating performance.

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

In 2001, SGTS was established in London for the purpose of providing integrated treasury services for Sony Corporation and its subsidiaries. Sony s policy is that Sony Corporation and all subsidiaries with foreign exchange exposures should enter into commitments with SGTS for hedging their exposures. Sony Corporation and most of its subsidiaries utilize SGTS for this purpose. The concentration of foreign exchange exposures at SGTS means that, in effect, SGTS hedges the net foreign exchange exposure of Sony Corporation and its subsidiaries. SGTS in turn enters into foreign exchange transactions with creditworthy third-party financial institutions. Most of the transactions are entered into against projected exposures before the actual export and import transactions take place. In particular SGTS hedges the majority of the exposures of major currency pairs such as U.S. dollar against Japanese yen, euro against Japanese yen and euro against U.S. dollar, on average three months before the actual transactions take place. In the case of emerging market currencies, such as Brazil, with high inflation and high interest rates, the majority of the projected exposures are hedged one month before the actual transactions take place due to cost effectiveness considerations. Sony enters into foreign exchange transactions with financial institutions only for hedging purposes and does not undertake speculative transactions.

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

Changes in the fair value of derivatives designated as cash flow hedges, including foreign exchange forward contracts and foreign currency option contracts, are initially recorded in other comprehensive income and reclassified into earnings when the hedged transaction affects earnings. Foreign exchange forward contracts, foreign currency option contracts and other derivatives that do not qualify as hedges are marked-to-market with changes in value recognized in Other Income and Expenses. The notional amounts of foreign exchange forward contracts, currency option contracts purchased and currency option contracts written as of March 31, 2003 were 1,139.3 billion yen, 484.5 billion yen and 238.8 billion yen, respectively.

Assets, Liabilities and Stockholders Equity

(Regarding Assets and Liabilities refer also to Increase in Assets and Liabilities as a Result of Consolidation of Variable Interest Entities below.)

Assets

Total assets on March 31, 2004 increased by 720.1 billion yen, or 8.6 percent, to 9,090.7 billion yen, compared with the previous fiscal year-end. Total assets on March 31, 2004 in all segments excluding the Financial Services segment increased by 235.0 billion yen, or 4.0 percent, to 6,060.8 billion yen and total assets on March 31, 2004 in the Financial Services segment increased by 577.9 billion yen, or 19.9 percent, to 3,475.0 billion yen, compared with the previous fiscal year-end. Total assets on March 31, 2004 in all segments excluding the Financial Services segment would have increased by approximately 9 percent compared with the previous fiscal year-end if the value of the yen had remained the same on March 31, 2004 as it was on March 31, 2003.

Current Assets

Current assets on March 31, 2004 increased by 209.1 billion yen, or 6.6 percent, to 3,363.4 billion yen compared with the previous fiscal year-end. Current assets on March 31, 2004 in all segments excluding the Financial Services segment increased by 188.5 billion yen, or 7.5 percent, to 2,692.4 billion yen.

Cash and cash equivalents in all segments excluding Financial Services increased 154.4 billion yen, or 35.2 percent, to 592.9 billion yen compared with the previous fiscal year. This increase was primarily due to the issuance, in December 2003, of 250 billion yen in euro yen convertible bonds. The proceeds from this issuance will be applied towards investments in the development of, and production equipment for, key devices, such as the next generation broadband processor (for more information on cash and cash equivalents, refer to Liquidity Management below).

Notes and accounts receivable, trade (net of deductions for doubtful accounts and allowances for returns) increased 3.8 billion yen compared with the previous fiscal year-end to 1,011.2 billion yen.

Inventories on March 31, 2004 increased by 40.8 billion yen, or 6.5 percent, to 666.5 billion yen compared with the previous fiscal year-end. The inventory to cost of sales turnover ratio (based on the average of inventories at the end of each fiscal year and previous fiscal year) decreased from 1.57 months at the end of the previous fiscal year to 1.53 months. Sony considers this level of inventory to be appropriate in the aggregate. During the fiscal year ended March 31, 2004, Sony did not engage in the kind of aggressive inventory reduction that it engaged in during the fourth quarter of the fiscal year ended March 31, 2003.

Current assets on March 31, 2004 in the Financial Services segment increased by 14.8 billion yen, or 2.2 percent, to 699.7 billion yen, compared with the previous fiscal year-end. The increase was primarily attributable to an increase in marketable securities.

Investments and Advances

(Also see Investments below.)

Investments and advances on March 31, 2004 increased by 518.8 billion yen, or 26.0 percent, to 2,513.0 billion yen, compared with the previous fiscal year-end.

Investments and advances on March 31, 2004 in all segments excluding the Financial Services segment decreased by 24.4 billion yen, or 6.4 percent, to 358.6 billion yen. This decrease was mainly due to the recording of an impairment loss on securities issued by a privately held Japanese company, which Sony accounted for under the cost method, that is engaged in cable broadcasting and other businesses and a decrease in the amount recorded in investments due to the consolidation of an affiliated company that was formerly accounted for under the equity method as a result of the adoption during the fiscal year ended March 31, 2004 of Financial Accounting Standards Board (FASB) Interpretation (FIN) 46 (refer to Notes 5 and 6 in the Notes to the Consolidated Financial Statements).

Investments and advances on March 31, 2004 in the Financial Services segment increased by 543.1 billion yen, or 31.4 percent, to 2,274.5 billion yen, compared with the previous fiscal year-end. This increase was primarily due to an increase in assets under management.

Table of Contents

Property, plant and equipment (after deduction of accumulated depreciation)

Property, plant and equipment on March 31, 2004 increased by 86.7 billion yen, or 6.8 percent, to 1,365.0 billion yen, compared with the previous fiscal year-end.

Property, plant and equipment on March 31, 2004 in all segments excluding the Financial Services segment increased by 91.9 billion yen, or 7.5 percent, to 1,324.2 billion yen, compared with the previous fiscal year-end. The increase was mainly due to an increase in assets resulting from the adoption of FIN 46.

Capital expenditures (part of the increase in property, plant and equipment) for the fiscal year ended March 31, 2004 increased by 117.0 billion yen, or 44.8 percent, to 378.3 billion yen compared with the previous fiscal year. Capital expenditures in the Electronics segment increased 72.4 billion yen, or 42.5 percent, to 242.7 billion yen and in the Game segment by 59.4 billion yen, or 144.9 percent, to 100.4 billion yen. Capital expenditures in the semiconductor businesses (included in the capital expenditures of both the Electronics and Game segments) amounted to 175.0 billion yen, of which investments in production equipment for next generation broadband microprocessors amounted to 69.0 billion yen.

Capital expenditures in the Music segment decreased by 8.9 billion yen, or 40.9 percent, to 12.9 billion yen, in the Pictures segment by 1.1 billion yen, or 15.8 percent to 6.0 billion yen, and in the Other segment by 5.3 billion yen, or 34.3 percent, to 10.1 billion yen.

Property, plant and equipment on March 31, 2004 in the Financial Services segment decreased 5.2 billion yen, or 11.2 percent, to 40.8 billion yen compared with the previous fiscal year-end. Capital expenditures in the Financial Services segment increased 1.0 billion yen, or 26.3 percent, to 4.6 billion yen.

Other Assets

Other assets on March 31, 2004 decreased by 63.5 billion yen, or 3.8 percent, to 1,592.6 billion yen, compared with the previous fiscal year-end.

Other assets on March 31, 2004 in all segments excluding the Financial Services segment increased by 0.1 billion yen to 1,251.9 billion yen. Other assets on March 31, 2004 in the Financial Services segment increased 25.2 billion yen, or 5.8 percent, to 460.0 billion yen compared with the previous year. This was mainly due to an increase in deferred insurance acquisition costs at Sony Life.

Deferred tax assets on March 31, 2004 decreased by 124.9 billion yen, or 38.1 percent, to 203.2 billion yen compared with the previous fiscal year-end. The decrease was due to the offset between deferred tax assets and liabilities recorded at each of the companies within the Sony Group, as a result of the adoption of consolidated tax filing in Japan.

Liabilities

Total current and long-term liabilities on March 31, 2004 increased by 622.2 billion yen, or 10.3 percent, to 6,689.8 billion yen compared with the previous fiscal year-end. Total current and long-term liabilities on March 31, 2004 in all segments excluding the Financial Services segment increased by 189.6 billion yen, or 5.2 percent, to 3,855.9 billion yen. Total current and long-term liabilities on March 31, 2004, in the Financial Services segment increased by 515.4 billion yen, or 19.9 percent, to 3,099.8 billion yen, compared with the previous fiscal year-end. Total liabilities on March 31, 2004 in all segments excluding the Financial Services segment would have increased by approximately 10 percent compared with the previous fiscal year-end if the value of the yen had remained the same on March 31, 2004 as it was on March 31 of the previous fiscal year.

Current Liabilities

Current liabilities on March 31, 2004 increased by 547.2 billion yen, or 22.5 percent, to 2,982.2 billion yen compared with the previous fiscal year-end. Current liabilities on March 31, 2004 in all segments

63

Table of Contents

excluding the Financial Services segment increased by 307.7 billion yen, or 14.9 percent, to 2,373.6 billion yen.

Short-term borrowings and current portion of long-term debt on March 31, 2004 in all segments excluding the Financial Services segment increased 283.1 billion yen, or 223.4 percent, to 409.8 billion yen compared with the previous fiscal year-end. This increase was mainly due to the shift from long-term liabilities to current liabilities of 287.8 billion yen (as of March 31, 2004) in outstanding convertible bonds, due for redemption on March 31, 2005, and an increase of 57.3 billion yen in bank syndicated loans, which will reach maturity by November 2004, as a result of the adoption of FIN 46. Partially offsetting these items was a 52.8 billion yen repayment of commercial paper during the fiscal year.

Notes and accounts payable, trade on March 31, 2004 in all segments excluding the Financial Services segment increased by 79.6 billion yen, or 11.5 percent, to 773.2 billion yen compared with the previous fiscal year-end. This increase was particularly conspicuous in the Electronics segment, where inventories also increased.

Current liabilities on March 31, 2004 in the Financial Services segment increased by 232.9 billion yen, or 56.0 percent, to 648.8 billion yen, mainly due to the increase in deposits from customers and interbank short-term borrowings in the banking business. Deposits from customers in the banking business increased by 130.1 billion yen, or 52.3 percent, to 378.9 billion yen, due to the expansion of the banking business.

Long-term Liabilities

Long-term liabilities on March 31, 2004 increased by 75.0 billion yen, or 2.1 percent, to 3,707.6 billion yen compared with the previous fiscal year-end.

Long-term liabilities on March 31, 2004 in all segments excluding the Financial Services segment decreased by 118.1 billion yen, or 7.4 percent, to 1,482.4 billion yen. This decrease was mainly due to a 129.2 billion yen, or 26.5 percent, decrease to 358.2 billion yen of accrued pension and severance costs primarily resulting from an increase in pension assets due to the rise in value of equity investment in Japan.

Long-term debt on March 31, 2004 in all segments excluding the Financial Services segment decreased 27.7 billion yen, or 3.4%, to 775.2 billion yen. This was mainly due to the shift to current liabilities of 287.8 billion yen (as of March 31, 2004) in outstanding convertible bonds, due for redemption on March 31, 2005, and despite the issuance of the 250.0 billion yen in euro yen convertible bonds (bonds with stock acquisition rights).

Long-term liabilities on March 31, 2004 in the Financial Services segment increased by 282.5 billion yen, or 13.0 percent, to 2,451.0 billion yen. This was due to an increase in insurance-in-force in the life insurance business which resulted in an increase in future insurance policy benefits and other of 264.2 billion yen, or 13.8 percent, to 2,178.6 billion yen.

Total Interest-bearing Debt

Total interest-bearing debt on March 31, 2004 increased by 286.5 billion yen, or 29.7 percent, to 1,252.7 billion yen, compared with the previous fiscal year-end. Total interest-bearing debt on March 31, 2004 in all segments excluding the Financial Services segment increased by 255.4 billion yen, or 27.5 percent, to 1,185.0 billion yen.

Increase in Assets and Liabilities as a Result of Consolidation of Variable Interest Entities

Sony adopted FIN 46 on July 1, 2003. As a result, Sony s assets and liabilities increased as non-cash transactions, which resulted in no cash flows, by 95.3 billion yen and 98.0 billion yen, respectively. Cash

Table of Contents

and cash equivalents also increased by 1.5 billion yen. The Variable Interest Entities (VIEs) consolidated by Sony include the following:

Sony leases the headquarters of its U.S. subsidiary from a VIE. Upon consolidation of the VIE, assets and liabilities increased by 25.3 billion yen and 27.0 billion yen, respectively. Sony has the option to purchase the building at any time for 26.9 billion yen during the lease term which expires in December 2008. The debt held by the VIE is unsecured. At the end of the lease term, Sony has agreed to either renew the lease, purchase the building or remarket it to a third party on behalf of the owner.

A subsidiary in the Pictures business entered into a joint venture agreement with a VIE for the purpose of funding the acquisition of certain international film rights. Upon consolidation of the VIE, assets and liabilities increased by 10.2 billion yen and 10.6 billion yen, respectively. Under the agreement, the subsidiary s 1.2 billion yen equity investment is the last equity to be repaid.

Sony has utilized a VIE to erect and operate a multi-use real estate complex in Berlin, Germany, which was accounted for under the equity method by Sony until June 30, 2003. On July 1, 2003, Sony consolidated this entity. Upon consolidation of the VIE, assets and liabilities increased by 61.3 billion yen and 60.3 billion yen, respectively. These liabilities include a 57.3 billion yen syndicated bank loan which matures in November 2004. The syndicated bank loan is secured by the multi-use real estate complex.

Regarding further information on transactions with VIEs please refer to Notes 21 and 22 of Notes to Consolidated Financial Statements.

Stockholders Equity

Stockholders equity on March 31, 2004 increased by 97.1 billion yen, or 4.3 percent, to 2,378.0 billion yen compared with the previous fiscal year-end. Retained earnings increased 65.3 billion yen compared with the previous fiscal year-end, and the amount of deductions recorded in accumulated other comprehensive income decreased 22.0 billion yen. Accumulated other comprehensive income improved because, although foreign currency translation adjustments (deduction from accumulated other comprehensive income) increased 127.9 billion yen year on year, due to the appreciation of the yen, minimum pension liability adjustments (deduction from accumulated other comprehensive income) decreased 93.4 billion yen, due to an increase in pension assets resulting from the rise in value of equity investment in Japan, and unrealized gains on securities increased 52.3 billion yen compared with the previous fiscal year-end. The ratio of stockholders equity to total assets decreased 1.0 percent from 27.2 percent to 26.2 percent.

Table of Contents

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

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

	Financial Services		**All other Segments excluding Financial Services**		**Consolidated**	
As at March 31	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**
			(Yen in millions)			
Assets						
Current assets	684,945	699,698	2,503,940	2,692,436	3,154,214	3,363,355
Cash and cash equivalents	274,543	256,316	438,515	592,895	713,058	849,211
Marketable securities	236,621	270,676	4,899	4,072	241,520	274,748
Notes and accounts receivable, trade	68,188	72,273	943,073	943,590	1,007,395	1,011,189
Other	105,593	100,433	1,117,453	1,151,879	1,192,241	1,228,207
Film costs			287,778	256,740	287,778	256,740
Investments and advances	1,731,415	2,274,510	383,004	358,629	1,994,123	2,512,950
Investments in Financial Services, at cost			166,905	176,905		
Property, plant and equipment	45,990	40,833	1,232,359	1,324,211	1,278,350	1,365,044
Other assets	434,769	459,998	1,251,810	1,251,901	1,656,080	1,592,573
Deferred insurance acquisition costs	327,869	349,194			327,869	349,194
Other	106,900	110,804	1,251,810	1,251,901	1,328,211	1,243,379
	2,897,119	3,475,039	5,825,796	6,060,822	8,370,545	9,090,662

Table of Contents

As at March 31	Financial Services 2003	Financial Services 2004	All other Segments excluding Financial Services 2003	All other Segments excluding Financial Services 2004	Consolidated 2003	Consolidated 2004
	(Yen in millions)					
Liabilities and stockholders equity						
Current liabilities	415,877	648,803	2,065,854	2,373,550	2,435,048	2,982,215
Short-term borrowings	72,753	86,748	126,687	409,766	158,745	475,017
Notes and accounts payable, trade	5,417	7,847	693,589	773,221	697,385	778,773
Deposits from customers in the banking business	248,721	378,851			248,721	378,851
Other	88,986	175,357	1,245,578	1,190,563	1,330,197	1,349,574
Long-term liabilities	2,168,476	2,450,969	1,600,484	1,482,378	3,632,580	3,707,587
Long-term debt	140,908	135,811	802,911	775,233	807,439	777,649
Accrued pension and severance costs	8,737	10,183	487,437	358,199	496,174	368,382
Future insurance policy benefits and other	1,914,410	2,178,626			1,914,410	2,178,626
Other	104,421	126,349	310,136	348,946	414,557	382,930
Minority interest in consolidated subsidiaries			16,288	17,554	22,022	22,858
Stockholders equity	312,766	375,267	2,143,170	2,187,340	2,280,895	2,378,002
	2,897,119	3,475,039	5,825,796	6,060,822	8,370,545	9,090,662

Investments

Sony regularly evaluates its investment portfolio to identify other-than-temporary impairments of individual securities. Factors that are considered by Sony in determining whether an other-than-temporary decline in value has occurred include: the length of time and extent to which the market value of the security has been less than its original cost, the financial condition, operating results, business plans and estimated future cash flows of the issuer of the security, other specific factors affecting the market value, deterioration of issuer s credit condition, sovereign risk, and whether or not Sony is able to retain the investment for a period of time sufficient to allow for the anticipated recovery in market value.

In evaluating the factors for available-for-sale securities with readily determinable fair values, management presumes a decline in value to be other-than-temporary if the fair value of the security is 20 percent or more below its original cost for an extended period of time (generally a period of up to six to twelve months). The presumption of an other-than-temporary impairment in such cases may be overcome if there is evidence to support that the decline is temporary in nature due to the existence of other factors which overcome the duration or magnitude of the decline. On the other hand, there may be cases where impairment losses are recognized when the decline in the fair value of the security is not more than 20 percent or such decline has not existed for an extended period of time, as a result of considering specific factors which may indicate the decline in the fair value is other-than-temporary.

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

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

	March 31, 2004			
	Cost	Unrealized gain	Unrealized Loss	Fair Market Value
	Yen in Millions			
Financial Services Business:				
Available for sale				
Debt securities				
Sony Life	1,581,723	54,645	1,828	1,634,540
Other	348,443	971	232	349,182
Equity securities				
Sony Life	33,694	16,398	149	49,943
Other	2,384	4,365	0	6,749
Held to maturity				
Debt securities				
Sony Life				
Other	26,437	381	28	26,790
Total Financial Services	1,992,681	76,760	2,237	2,067,204
Non-Financial Services:				
Available for sale securities	58,946	42,768	1,749	99,965
Held to maturity securities	2			2
Total Non-Financial Services	58,948	42,768	1,749	99,967
Consolidated	2,051,629	119,528	3,986	2,167,171

The most significant portion of these unrealized losses relate to investments held by Sony Life. Sony Life principally invests in debt securities in various industries. Almost all of these securities were rated BBB or better by Standard & Poor s, Moody s or others. As of March 31, 2004, Sony Life had debt and equity securities which had gross unrealized losses of 1.8 billion yen and 0.1 billion yen, respectively. Of the unrealized loss amounts recorded by Sony Life, less than 1 percent relate to securities being in an unrealized loss position of greater than 12 months. These unrealized losses related to numerous investments, with no single investment being in a material unrealized loss position. In addition, there was no individual security with unrealized losses that met the test discussed above for impairment as the declines in value were observed to be small both in amounts and percentage, and therefore, the decline in value for those investments was still determined to be temporary in nature. The percentage of noninvestment grade securities held by Sony Life represents approximately 3 percent of Sony Life s total investment portfolio, while the percentage of unrealized losses that relate to those noninvestment grade securities was approximately 7 percent of Sony Life s total unrealized losses as of March 31, 2004.

For fixed maturity securities with unrecognized losses held by Sony Life as of March 31, 2004 (1.8 billion yen), maturity dates vary as follows:

Within 1 year:	9 percent
1 to 5 years:	54 percent
5 to 10 years:	37 percent

Sony also maintains long-term investment securities issued by a number of non-public companies. The aggregate carrying amount of the investments in non-public companies at March 31, 2004, which were valued at the lower of cost or fair value, was 51.4 billion yen.

For the years ended March 31, 2002, 2003 and 2004, total impairment losses were 27.6 billion yen, 25.5 billion yen and 16.7 billion yen of which 9.2 billion yen, 2.3 billion yen and 0.2 billion yen, respectively, were recorded by Sony Life in Financial Services revenue (refer to Financial Services under *Operating Performance by Business Segment* for the fiscal years ended March 31, 2004 and March 31, 2003). Impairment losses other than at Sony Life in each of the three years were reflected in non-operating expenses and primarily relate to the certain strategic investments in non-financial services businesses. These investments primarily relate to the certain strategic investments in Japan, the U.S. and Europe with which Sony has strategic relationships for the purposes of developing and marketing new technologies. The impairment losses were recorded for each of the three years as these companies failed to successfully develop and market such technology, the operating performance of the companies was more unfavorable than previously expected and the decline in fair value of these companies was judged as other-than-temporary. None of these impairment losses was individually material to Sony, except for the devaluation of securities explained in Other Income and Expenses for the fiscal years ended March 31, 2004, March 31, 2003 and March 31, 2002, except for the devaluation of securities in the cases of companies such as Candescent Technologies Corporation, a developer of flat-screen technology and Trimedia Technologies Inc., a developer of microprocessor technologies.

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

Sony Life and Sony Bank s investments constitute the majority of the investments in the Financial Services segment. Sony Life and Sony Bank account for approximately 81 percent and 17 percent of the investments of the Financial Services segment, respectively.

Sony Life s basic investment policy is to take both expected returns and investment risks into account in order to maintain sound asset quality, structuring its asset management portfolio to ensure steady medium- and long-term returns by investing assets in an efficient manner and responding flexibly to changes in financial conditions and the investment environment. Moreover, Sony Life analyzes the character of future insurance policy benefits by utilizing Asset Liability Management (ALM), a method of managing interest rate fluctuation risk through the comprehensive identification of the mismatches of duration and cash flows between assets and liabilities. Government bonds and corporate bonds constitute a majority of Sony Life s current portfolio. Sony Life invests in various types of government and corporate bonds in many countries, companies and industries, to diversify associated risks. Further, as stocks accounted for approximately 2 percent of such securities, the financial structure of Sony Life is not greatly influenced by stock prices.

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

Table of Contents

Contractual obligations, commitments, and contingent liabilities

The following table summarizes Sony s contractual obligations and major commitments.

		Payments Due by Period			
	Total	Less than 1 Year	1 to 3 Years	3 to 5 Years	After 5 Years
		(Yen in millions)			
Contractual Obligations and Major Commitments:					
Long-term debt (Note 10)					
Capital lease obligations (Notes 7 and 10)	**42,689**	12,667	13,109	10,923	5,990
Other long-term debt (Note 10)	**1,118,717**	371,090	316,103	299,984	131,540
Minimum rental payments required under operating leases (Note 7)	**187,379**	42,649	58,725	29,498	56,507
Purchase commitments for property, plant and equipment and other assets (Note 22)	**20,796**	20,331	462	3	
Expected payments regarding contracts with recording artists and other (Note 22)	**39,073**	19,470	14,759	3,708	1,136
Expected cost for the production or purchase of films and television programming or certain rights (Note 22)	**95,232**	39,672	55,560		
Commitment under the joint venture agreement with Samsung Electronics Co., Ltd. (Note 22)	**96,285**	96,285			

* The total amount of expected future pension payments is not included in the above table or the total amount of commitments outstanding at March 31, 2004 discussed below as such amount is not currently determinable. Sony expects to contribute approximately 23.0 billion yen to the Japanese pension plans and approximately 17.0 billion yen to the foreign pension plans for the year ending March 31, 2005 (Note 13).

The total amount of commitments outstanding at March 31, 2004 was 316.1 billion yen (refer to Note 22 of Notes to Consolidated Financial Statements). The commitments include major purchase obligations as shown above.

In the ordinary course of business, Sony makes commitments for the purchase of property, plant and equipment. As of March 31, 2004, such commitments outstanding were 20.8 billion yen. Most of these assets will be used for general operating purposes.

Certain subsidiaries in the Music segment have entered into long-term contracts with recording artists and companies for the production and/or distribution of pre-recorded music and videos. As of March 31, 2004, the total amount of expected payments regarding these long-term contracts was 39.1 billion yen.

A subsidiary in the Pictures segment has committed to fund a portion of the production cost of completed films and is responsible for all distribution and marketing expenses relating to these films under a distribution agreement with a third party. Further, certain subsidiaries in the Pictures segment have entered into agreements with creative talent for the development and production of films and television programming as well as agreements with third parties to acquire completed films, or certain rights therein. As of March 31, 2004, the total amount of the expected cost for the production or purchase of films and television programming or certain rights under the above commitments was 95.2 billion yen.

On March 8, 2004, Sony Corporation signed an agreement with Samsung Electronics Co., Ltd. (Samsung) to establish a joint venture, named S-LCD Corporation. As of March 31, 2004, under the joint venture agreement, Sony is committed to fund a total of 96.3 billion yen.

In December 2003, Sony and Bertelsmann AG signed a binding agreement to combine their recorded music businesses in a joint venture. The newly formed company, which will be known as Sony BMG, will

Table of Contents

be 50% owned by each parent company. The merger is subject to regulatory approvals in the U.S. and European Union.

In order to fulfill its commitments, Sony will use cash generated by its operating activities, use net excess cash within the Sony Group through group finance subsidiaries such as SGTS and raise funds from the global capital markets and from banks when necessary.

The following table summarizes Sony s contingent liabilities.

	Total Amounts of Contingent Liabilities
	(Yen in millions)
Contingent Liabilities: (Notes 21 and 22)	
Loan guarantees to related parties	19,903
Maximum potential future unrecorded obligation associated with a joint venture in the Pictures segment	17,955
Other	22,004
Total contingent liabilities	59,862

Off-Balance Sheet Arrangements

During the fiscal year ended March 31, 2004, Sony entered into a new accounts receivable securitization program which provides for the accelerated receipt of up to 500 million U.S. dollars of cash on eligible trade accounts receivable of Sony s U.S. electronics subsidiary and replaced the previous accounts receivable securitization program which provided for the accelerated receipt of up to 900 million U.S. dollars. 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. These securitization transactions are accounted for as a sale in accordance with Statement of Financial Accounting Standards (FAS) No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities , because Sony has relinquished control of the receivables. Accordingly, accounts receivable sold under these facilities are excluded from receivables in the accompanying consolidated balance sheet. There were no amounts outstanding under this facility at March 31, 2004.

Sony has, from time to time, entered into various financing arrangements with VIEs. These arrangements include facilities which provide for the leasing of certain property, the financing of film production and the development and operation of a multi-use real estate complex. Although not a significant part of its financing activities, Sony employs these arrangements because they provide a diversification of funding sources. The assets and liabilities associated with these arrangements previously qualified for off-balance sheet treatment. On July 1, 2003, Sony adopted FIN 46 and accordingly, the assets and liabilities associated with these arrangements were consolidated. Refer to Note 21 of Notes to Consolidated Financial Statements for more information. As a result, Sony recognized a one time charge with no tax effect of 2.1 billion yen for a cumulative effect of accounting change. Additionally, Sony s assets and liabilities increased as non-cash transactions, which resulted in no cash flows, by 95.3 billion yen and 98.0 billion yen, respectively. Cash and cash equivalents also increased by 1.5 billion yen. For all the VIEs in which Sony holds a significant variable interest Sony is a primary beneficiary, and all these VIEs are consolidated by Sony.

Cash Flows

(The fiscal year ended March 31, 2004 compared with the fiscal year ended March 31, 2003)

Operating Activities: During the fiscal year ended March 31, 2004, Sony generated 632.6 billion yen of net cash from operating activities, a decrease of 221.2 billion yen, or 25.9 percent compared with the previous fiscal year. Of this total, all segments excluding the Financial Services segment generated 401.1 billion yen of net cash from operating activities, a decrease of 143.0 billion yen, or 26.3 percent, compared with the previous year, and the Financial Services segment generated 241.6 billion yen of net

Table of Contents

cash from operating activities, a decrease of 73.1 billion yen, or 23.2 percent, compared with the previous year.

During the fiscal year, profits from the Game, Financial Services, Pictures and Music segments, an increase in depreciation expenses, and an increase in notes and accounts payable, trade, primarily due to an increase in the procurement of raw materials and parts reflecting the increase in sales to outside customers in the Electronics segment, contributed to operating cash flow. Partially offsetting these contributions were factors including an increase in inventories in the Electronics segment and an increase in notes and accounts receivable, trade in the Electronics and Pictures segments. An increase in future insurance policy benefits and other, due to an increase in insurance-in-force, contributed to operating cash flow in the Financial Services segment.

Compared with the previous fiscal year, net cash provided by operating activities decreased, due to a year on year increase in notes and accounts receivable, trade during the fiscal year ended March 31, 2004, compared with a year on year decrease during the fiscal year ended March 31, 2003. The increase in notes and accounts receivable, trade was primarily due to an increase in sales to outside customers, in the fourth quarter ended March 31, 2004, of digital still cameras, flat panel televisions and cellular phones (sold to Sony Ericsson) in the Electronics segment, as well as home entertainment revenues in the Pictures segment, compared with the fourth quarter ended March 31, 2003. Although certain factors contributed to an increase in operating cash flow, such as a year on year increase, during the fiscal year ended March 31, 2004, in notes and accounts payable, trade, compared with a year on year decrease in the fiscal year ended March 31, 2003, mainly due to the increase in the procurement of raw materials and parts reflecting the increase in sales to outside customers in the Electronics segment, these factors were offset by factors such as an increase in inventories in the Electronics segment during the fiscal year ended March 31, 2004 compared with a decrease in the fiscal year ended March 31, 2003, which decreased operating cash flow.

Investing Activities: During the fiscal year, Sony used 761.8 billion yen of net cash in investing activities, an increase of 55.4 billion yen, or 7.8 percent, compared with the previous fiscal year. Of this total, all segments excluding the Financial Services segment used 352.5 billion yen of net cash in investing activities, an increase of 166.6 billion yen, or 89.6 percent, compared with the previous fiscal year, and the Financial Services segment used 401.6 billion yen in net cash, a decrease of 115.1 billion yen, or 22.3 percent.

During the fiscal year, purchases of fixed assets (capital expenditures) were made, primarily due to proactive capital expenditures in the Electronics and Game segments mainly for next generation broadband microprocessors and CCDs, and payments for investments and advances exceeded proceeds in the Financial Services segment due to an increase in assets under management (refer to Financial Services).

Compared with the previous fiscal year, net cash used in investing activities increased due to an increase in purchases of fixed assets, primarily in the Electronics and Game segments. In all segments excluding the Financial Services segment, the amount of payments for investments and advances decreased by 90.5 billion yen, or 73.1 percent, to 33.3 billion yen, compared with the previous year, due to investments associated with the acquisition of companies such as InterTrust Technologies Corporation (InterTrust) and an increase in the capital stock of Sony Ericsson in the fiscal year ended March 31, 2003. On the other hand, the amount of proceeds from sales and maturities of investments and collections of advances in the segments other than Financial Services segment decreased 113.5 billion yen, or 76.2 percent to 35.5 billion yen compared with the previous fiscal year, due to the sale of Sony s equity interest in Telemundo in the previous fiscal year. In the Financial Services segment, net cash used in investing activities decreased due to an increase in proceeds from investments and advances.

In all segments excluding the Financial Services segment, the difference between cash generated from operating activities and cash used in investing activities was a positive 48.6 billion yen for the fiscal year, a decrease of 309.6 billion yen, or 86.4 percent, compared with the previous fiscal year.

Financing Activities: During the fiscal year ended March 31, 2004, 313.3 billion yen of net cash was provided by financing activities (in the previous fiscal year, 93.1 billion yen of net cash was used in financing activities). Of the total, 153.8 billion yen of net cash was procured through financing activities in all segments excluding the Financial Services segment. Although 23.1 billion yen in cash was used for the payment of dividends and 52.8 billion yen in commercial paper was repaid, 250.0 billion yen in euro yen convertible bonds (bonds with stock acquisition rights) were issued. In the Financial Services segment, due to factors such as a 129.9 billion yen increase in deposits from customers in the banking business, net cash provided by financing activities was 141.7 billion yen.

Accounting for all these factors and the effect of exchange rate changes, the total outstanding balance of cash and cash equivalents at the end of the fiscal year increased 136.2 billion yen, or 19.1 percent, to 849.2 billion yen, compared with the end of the previous fiscal year. The total outstanding balance of cash and cash equivalents of all segments excluding the Financial Services segment increased 154.4 billion yen, or 35.2 percent, to 592.9 billion yen and for the Financial Services segment decreased 18.2 billion, or 6.6 percent, to 256.3 billion yen, compared with the previous fiscal year.

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

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

	Financial Services		All other segments excluding Financial Services		Consolidated	
Year Ended March 31	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**
			(Yen in millions)			
Net cash provided by operating activities	314,764	241,627	544,051	401,090	853,788	632,635
Net cash used in investing activities	(516,663)	(401,550)	(185,883)	(352,496)	(706,425)	(761,792)
Net cash provided by (used in) financing activities	149,207	141,696	(251,247)	153,759	93,134	313,283
Effect of exchange rate changes on cash and cash equivalents			24,971	(47,973)	24,971	(47,973)
Net increase (decrease) in cash and cash equivalents	(52,692)	(18,227)	81,950	154,380	29,258	136,153
Cash and cash equivalents at beginning of the fiscal year	327,235	274,543	356,565	438,515	683,800	713,058
Cash and cash equivalents at end of the fiscal year	274,543	256,316	438,515	592,895	713,058	849,211

Cash Flows

(The fiscal year ended March 31, 2003 compared with the fiscal year ended March 31, 2002)

During the fiscal year ended March 31, 2003, Sony generated 853.8 billion yen of net cash from operating activities, an improvement of 116.2 billion yen, or 15.8 percent compared with the previous fiscal year.

All segments excluding the Financial Services segment generated 542.8 billion yen of net cash from operating activities. The primary reasons for the positive cash flow were the contribution to profit by the

Game, Pictures and Electronics segments and a decrease in notes and accounts receivable despite a decrease in notes and accounts payable. Compared to the previous fiscal year, net cash generated from operating activities improved 106.8 billion yen, or 24.5 percent. Although there was a smaller decrease in inventories, the increase in the operating income in the Electronics, Game and Pictures segments, a smaller decrease in notes and accounts payable, and a larger decrease in notes and accounts receivable all contributed to the net increase in cash generated from operating activities compared with the previous fiscal year.

The Financial Services segment generated 316.0 billion yen of net cash from operating activities. While cash declined primarily as a result of an increase in deferred insurance acquisition costs, an increase in future insurance policy benefits and other as a result of an increase in insurance-in-force resulted in cash generated from operating activities exceeding expenditures. Compared with the previous fiscal year, cash generated from operating activities in the Financial Services segment improved by 14.3 billion yen, or 4.8 percent.

During the fiscal year, 706.4 billion yen in cash was used in investing activities (a decrease of 60.7 billion yen, or 7.9 percent compared with the previous fiscal year).

In all segments excluding the Financial Services segment, 185.2 billion yen in cash was used in investing activities. During the fiscal year, cash was used to purchase fixed assets mainly in the Electronics segment. Cash proceeds of 135.8 billion yen were generated from sales of securities investments, maturities of marketable securities and collections of advances, including 88.4 billion yen from the sale of Telemundo. Compared with the previous fiscal year, cash used in investing activities decreased by 183.8 billion yen, or 49.8 percent. As a result of a reduction in capital expenditures mainly in the Electronics segment, cash used to purchase fixed assets decreased compared with the previous fiscal year.

In the Financial Services segment, 517.4 billion yen in cash was used in investing activities (an increase of 115.5 billion yen, or 28.7 percent compared with the previous fiscal year). The use of cash derived primarily from the fact that investments and advances of 1,026.4 billion yen exceeded sales of securities investments, maturities of marketable securities and collections of advances of 542.5 billion yen, reflecting an increase in assets under management in the Financial Services segment.

As a result of these factors, the difference between cash generated from operating activities and cash used in investing activities was a positive 147.4 billion yen for the fiscal year, an improvement of 176.9 billion yen compared with the previous fiscal year (in the previous fiscal year, net cash flow was a negative 29.5 billion yen). In terms of net cash flow from all segments excluding the Financial Services segment, net cash flow was a positive 357.7 billion yen for the fiscal year, an improvement of 290.6 billion yen, or 433.0 percent, compared with the previous fiscal year. Net cash flow from the Financial Services segment was a negative 201.4 billion yen, a deterioration of 101.2 billion yen compared with the previous fiscal year.

During the fiscal year ended March 31, 2003, 93.1 billion yen of net cash was used in financing activities compared to 85.0 billion yen of net cash provided by financing activities in the previous year. 22.9 billion yen in cash was used for the payment of dividends.

In all segments excluding the Financial Services segment, 251.1 billion yen of net cash was used in financing activities compared to 31.6 billion yen of cash used in financing activities in the previous year. Cash was used during the fiscal year for repayments of long-term debt including 1.5 billion U.S. dollars of U.S. dollar notes redeemed on March 4, 2003. These repayments caused cash used in financing activities to exceed cash provided by financing activities.

In the Financial Services segment, 149.1 billion yen of net cash was provided by financing activities compared to 120.3 billion yen of net cash provided by financing activities. This was due to a 142.2 billion yen, or 133.6 percent, increase in deposits from customers in the banking business.

Accounting for all these factors and the effect of exchange rate changes, the total outstanding balance of cash and cash equivalents at the end of the fiscal year increased 29.3 billion yen, or 4.3 percent, to

Table of Contents

713.1 billion yen, compared with the end of the previous fiscal year. The total outstanding balance of cash and cash equivalents of all segments excluding the Financial Services segment increased 81.6 billion yen, or 22.9 percent, to 438.1 billion yen and for the Financial Services segment decreased 52.3 billion, or 16.0 percent, to 274.9 billion yen, compared with the previous fiscal year.

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

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

	Financial Services		**All other segments excluding Financial Services**		**Consolidated**	
Year Ended March 31	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**
			(Yen in millions)			
Net cash provided by operating activities	301,625	315,968	436,059	542,848	737,596	853,788
Net cash used in investing activities	(401,866)	(517,383)	(368,951)	(185,163)	(767,117)	(706,425)
Net cash provided by (used in) financing activities	120,255	149,086	(31,603)	(251,128)	85,040	(93,134)
Effect of exchange rate changes on cash and cash equivalents	3	(5)	21,033	(24,965)	21,036	(24,971)
Net increase (decrease) in cash and cash equivalents	20,017	(52,334)	56,538	81,592	76,555	29,258
Cash and cash equivalents at beginning of the fiscal year	307,245	327,262	300,000	356,538	607,245	683,800
Cash and cash equivalents at end of the fiscal year	327,262	274,928	356,538	438,130	683,800	713,058

LIQUIDITY AND CAPITAL RESOURCES

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

Sony s mid-term fund requirements are expected to increase due to restructuring charges and investments in research, development and capital expenditures for key devices, including next generation broadband microprocessors. These increases in expenses and investments are part of the fundamental reform plan, Transformation 60, which is being undertaken across the entire Sony Group and was started in the fiscal year beginning April 1, 2003 (refer to *Issues Facing Sony and Management s Responses to those Issues* and *Forecast of Consolidated Results* below).

In regards to the funding requirements that arise from this business strategy, working capital needs, repayment of existing debt, and all its other capital needs, Sony believes that it can maintain sufficient liquidity and financial flexibility through operating cash flow and cash and cash equivalents, its ability to procure necessary funds from the financial and capital markets, its commitment lines with banks, and other means.

Table of Contents

Capital Resources

Sony Corporation, SGTS, a Sony finance subsidiary in the U.K., and Sony Capital Corporation (SCC), a Sony finance subsidiary in the U.S., procure funds from the financial and capital markets.

In order to meet long-term funding requirements, Sony Corporation utilizes its access to global equity and bond markets. In December 2003, Sony Corporation issued 250 billion yen in euro yen zero coupon convertible bonds, due in 2008. The purpose of the issuance was to acquire funds for the growth strategy component of Transformation 60. Sony has a shelf registration of 200 billion yen in the Japanese domestic bond market, of which there was no outstanding balance as of March 31, 2004.

In order to meet the working capital requirements of the Group, Sony maintains commercial paper (CP) programs and medium-term note (MTN) programs through SGTS and SCC. SGTS maintains a CP program for both the U.S. and Euro CP markets, and a CP program in the Japanese CP market. SCC maintains a CP program in the U.S. market. As of March 31, 2004, the total amount of these CP programs was 1,873.4 billion yen. During the fiscal year ended March 31, 2004, the largest month-end outstanding balance of CP at Sony was 200.1 billion yen in November 2003. There was no outstanding balance of CP as of March 31, 2004.

Regarding MTNs, SGTS maintains a Euro MTN program, while SCC maintains a Rule 144A U.S. MTN program. The total amount of these MTN programs as of March 31, 2004 was 845.2 billion yen, and the total outstanding balance was approximately 60.5 billion yen. SCC maintains another Euro MTN program apart from these MTN programs shown above, but Sony does not intend to utilize this program for future financing requirements as Sony intends to concentrate its Euro MTN programs at SGTS.

Liquidity Management and Commitment Lines

Sony defines its liquidity sources as (a) cash, cash equivalents and time deposits, and (b) committed lines of credit contracted with financial institutions rated C or above in Bank Financial Strength ratings from Moody s Investors Services, Inc. (Moody s). Sony s basic policy is to maintain liquidity equal to at least 100 percent of the sum of a) the amount of average monthly sales and b) the amount of the largest expected monthly debt redemption during the fiscal year. Although its working capital needs have a general tendency to grow in the third quarter (from October to December), Sony believes that this policy is sufficient to meet its working capital requirements for any given fiscal year.

On March 31, 2004, the amount of liquidity sources, as defined by Sony, held by consolidated Sony excluding Sony Life., Sony Assurance, and Sony Bank was 1,118.0 billion yen. Of this total, cash, cash equivalents and time deposits were 601.1 billion yen and contracts for commitment lines with banks rated C or above totaled approximately 516.9 billion yen, of which the unused amount was approximately 515.6 billion yen. Sony also has additional commitment lines supporting its operational needs with some financial institutions, which have Moody s financial strength ratings of C or below, and these lines amount to approximately 302.8 billion yen. Refer to Note 11 of the Consolidated Financial Statements for the total amount of commitment lines regardless of Moody s financial strength rating for the fiscal year ended March 31, 2004.

In general, there are no restrictions on how Sony s borrowings can be used except that some borrowings may not be used to acquire securities listed on a U.S. exchange or traded over-the-counter in U.S., and use of such borrowing must comply with the rules and regulations issued by authorities such as the Board of Governors of the Federal Reserve Board. In addition, there are no financial covenants that would cause an acceleration of the obligation in the event of a downgrade in Sony s credit ratings, in any of Sony s material financing agreements.

Ratings

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

Sony s current debt ratings (long-term/ short-term) are: Moody s: A1 (outlook: negative)/ P-1; S&P: A+ (outlook: negative)/ A-1; and R&I: AA/a-1+.

On June 25, 2003, Moody s downgraded Sony s long-term debt rating from Aa3 to A1 (outlook: negative). R&I downgraded Sony s long-term debt rating from AA+ to AA on June 16, 2003. These actions reflected the concerns of the two agencies that Sony may take longer than initially expected to regain its previous level of profit and cash flow under the severe competition, particularly in the electronics business, and deflationary pressures. Sony s short-term debt rating from Moody s and R&I has been unaffected.

Despite the downgrading of Sony s long-term debt rating by Moody s and R&I, Sony believes that its access to the global capital markets will remain sufficient for its financing needs going forward, and that it will retain its ability to issue CP to meet its working capital needs.

Sony seeks to maintain a stable credit rating in order to ensure financial flexibility for liquidity and capital management, and to continue to maintain adequate access to sufficient funding resources in the financial and capital markets.

Cash Management

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

The above description covers liquidity and capital resources for consolidated Sony excluding Sony Life, Sony Assurance and Sony Bank, each of which respectively secures liquidity on its own.

Financial Services Segment

In the Financial Services segment, the management of Sony Life, Sony Assurance and Sony Bank recognize the importance of securing sufficient liquidity to cover the payment obligations that they take on as a result of their ordinary course of business. These companies abide by the regulations imposed by regulatory authorities and establish and operate under company guidelines that comply with these regulations. Their purpose in doing so is to maintain sufficient cash and cash equivalents and secure sufficient means to pay their obligations.

Sony Life currently obtains ratings from four rating agencies: A+ by S&P, A+ by AM Best Corporation, and AA by R&I and the Japan Credit Rating Agency Ltd. Sony Bank obtained an A-/ A-2 rating from S&P for its long-term/short-term debt.

The Use of EVA® Methodology

Aiming to advance corporate value creation management, Sony uses EVA®*, which reflects cost of capital, as one of its internal evaluation measures. The fiscal year ended March 31, 2004 marked the fourth year Sony has used EVA®. EVA® is used in the Electronics, Game, Music, and Pictures segments for various internal evaluation measures such as setting, monitoring and evaluating financial performance targets. EVA® is also linked to compensation. As a result, recognition of return on invested capital and cost of capital has spread further within each business unit and proactive efforts have been made to

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* EVA® (Economic Value Added) is a trademark of Stern Stewart & Co.

Table of Contents

improve EVA®. These efforts include focusing on key businesses in order to concentrate management resources in highly growing and profitable areas and controlling investments and inventories to improve capital efficiency.

RESEARCH AND DEVELOPMENT

Recognizing that research and development are indispensable for business growth, Sony is actively pursuing various technical themes, including technologies that support current services and those that will create new markets. Sony has also done away with the organizational structure in which there was an Electronics Chief Technology Officer (CTO), a Co-CTO and several CTOs for each network company, moving to a structure in which each business domain has a CTO. In this way, a single individual in each business domain oversees technological advances in that domain.

CTO of Home Electronics

CTO of Device Technology

CTO of Semiconductor Technology

CTO of Material Technology

CTO of Information Technology

Furthermore, in accordance with the strengthening of research and development at the network companies, the corporate laboratories were reorganized on April 1, 2004. In an effort to reinforce basic research and development activity in core science areas, two new research laboratories were also established, with the CTO of Material Technology and the CTO of Information Technology each responsible for one.

Materials Laboratories

Information Technologies Laboratories

In addition, two independent research laboratories, Sony Computer Science Laboratories, Inc. (fundamental research and user interface research) and Sony-Kihara Research Center, Inc. (three-dimensional computer graphics and image processing technologies), are conducting research and development in close collaboration with each other.

Research and development costs for the fiscal year ended March 31, 2004 increased 71.4 billion yen, or 16 percent, to 514.5 billion yen, compared with the previous fiscal year. The ratio of research and development costs to sales (excluding the Financial Services segment) increased from 6.4 percent to 7.5 percent. The bulk of research and development costs were incurred in the Electronics and Game segments; expenses in the Electronics segment increased 49.1 billion yen, or 12.9 percent, to 429.4 billion yen, and expenses in the Game segment increased 21.9 billion yen, or 35.7 percent, to 83.4 billion yen. In the Electronics segment, approximately 62 percent of expenses were for the development of new product prototypes while the remaining approximately 38 percent were for the development of mid- to long-term new technologies in such areas as semiconductors, communications, displays and next generation optical discs. Research and development costs in the Game segment increased primarily in the semiconductor and hardware field, with network technology accounting for part of the increase in the hardware area.

Research and development costs for the fiscal year ended March 31, 2003 increased 9.9 billion yen, or 2.3 percent, to 443.1 billion yen, compared with the previous fiscal year. The ratio of research and development costs to sales (excluding the Financial Services segment) increased from 6.1 percent to 6.4 percent. The bulk of research and development costs were incurred in the Electronics and Game segments; expenses in the Electronics segment decreased 3.1 billion yen, or 0.8 percent, to 380.3 billion yen, and expenses in the Game segment increased 13.2 billion yen, or 27.4 percent, to 61.5 billion yen. In the Electronics segment, approximately 66 percent of expenses were for the development of new product prototypes while the remaining approximately 34 percent were for the development of mid- to long-term new technologies in such areas as semiconductors, communications, and displays. Research and development costs in the Game segment increased primarily in the semiconductor and hardware field.

Research and development costs for the fiscal year ended March 31, 2002 increased 16.5 billion yen, or 4.0 percent, to 433.2 billion yen, compared with the previous fiscal year. The ratio of research and development costs to sales (excluding the Financial Services segment) was 6.1 percent, almost flat compared with the previous fiscal year. The bulk of research and development costs were incurred in the Electronics and Game segments; expenses in the Electronics segment increased 2.5 billion yen, or 0.7 percent, to 383.4 billion yen, and expenses in the Game segment increased 14.0 billion yen, or 40.9 percent, to 48.2 billion yen. In the Electronics segment, approximately 64 percent of expenses were for the development of new product prototypes while the remaining approximately 36 percent were for the development of mid- to long-term new technologies in such areas as semiconductors, communications, and displays. The increase in expenses in the Game segment centered on next-generation semiconductor architecture and network-related technologies for hardware.

TREND INFORMATION

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

Issues Facing Sony and Management s Response to those Issues

Compared with the previous fiscal year, the global business environment in which Sony operates has improved, with macroeconomic indicators showing signs of recovery and personal consumption beginning to increase. These improvements have done little to dissipate the challenges facing Sony, however, as competition in many of Sony s business segments continues to intensify and price erosion, especially in the Electronics segment, remains persistent. Competition has intensified due to the penetration of broadband, which has led to an augmentation of network infrastructure, making it easier for companies in other sectors to enter the markets in which Sony competes.

In response to these challenges, Sony has begun to implement Transformation 60, a series of fundamental reforms aimed at improving operational profitability and competitiveness in anticipation of future growth. Sony plans to implement Transformation 60 over the three fiscal years ending March 31, 2006. Through greater focus of management resources on strategic businesses, accelerated reform of its manufacturing platform, headcount reductions in administrative (including corporate) and sales functions and reductions in the cost of non-production materials, Sony intends to reduce fixed costs. Restructuring charges associated with these activities are expected to amount to approximately 335 billion yen over the three fiscal years ending March 31, 2006. The details of the restructuring plans for the fiscal years ending March 31, 2005 and 2006 have yet to be determined in full. Sony also aims to lay the seeds for future growth through strategic investments in research and development and aggressive capital expenditures in the area of semiconductors.

In the fiscal year ended March 31, 2004, the first year of Transformation 60, Sony recorded 168.1 billion yen in consolidated restructuring charges, 514.5 billion yen in consolidated research and development costs and 175 billion yen in semiconductor capital expenditures (total of Electronics and Game segments). In addition to this cost-cutting and investment for growth, each of Sony s business segments grappled with issues specific to that segment. Below is a description of the issues management believes each segment continues to face and an explanation as to how each segment is approaching those issues.

Electronics

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

In the area of semiconductors, Sony invested 69 billion yen in the fiscal year ended March 31, 2004 and plans to invest 120 billion yen in the fiscal year ending March 31, 2005 on semiconductor fabrication equipment built at the 65 nanometer level of process technology. These chips will be some of the most highly advanced on the market, and will include the new microprocessor for the broadband era, code-named Cell, as well as other system large scale integration (LSI) for use in the next generation computer entertainment system and a variety of future consumer electronics products. Sony began developing Cell together with IBM Corporation and Toshiba Corporation in the spring of 2001. To ensure efficient use of all the semiconductor production facilities in the Sony Group, Sony is also planning to consolidate the semiconductor fabrication facilities of the Electronics and Game segments into one organization on July 1, 2004.

In the area of other key devices, Sony is currently investing in 7th generation amorphous TFT LCD panel production equipment, reflecting its belief that demand for LCD televisions will continue to increase rapidly. Sony is investing one billion U.S. dollars in a joint venture it has established with Samsung, named S-LCD Corporation, and based in South Korea. Samsung holds 50 percent plus one share of the equity of the joint venture while Sony holds 50 percent minus one share of the equity of the joint venture. The President and CEO comes from Samsung while the CFO comes from Sony. Investment in manufacturing equipment will begin in the summer of 2004 while mass production of LCD panels is expected to begin in the second calendar quarter of 2005. Expected production capacity is 60,000 sheets per month at the 7th generation (1,870 mm x 2,200 mm) level of technology.

Game

In the Game segment, PlayStation 2 has a high share of the global game console market, and the PlayStation 2 business, particularly the PlayStation 2 software business, remains in its harvest stage. However, production shipment units of PlayStation 2 hardware are expected to decrease in the fiscal year ending March 31, 2005. In order to ensure future growth in the Game segment, Sony is investing, as described above, in the research and development of cutting-edge microprocessors and other LSIs that will be used in the next generation computer entertainment system. Furthermore, Sony is working to develop a new market through its planned introduction, in the fiscal year ending March 31, 2005, of PlayStation Portable (PSP), a new handheld game system on which a variety of content can be enjoyed.

Music

In the Music segment, album sales over the past several years have decreased due to the worldwide contraction of the global music industry brought on by piracy and competition from other entertainment sectors. Although Sony experienced improvement in a number of key retail markets during the fiscal year ended March 31, 2004, it continued to record declining sales on a global basis. In an effort to maintain profitability, Sony is continuing to implement restructuring initiatives designed to reduce fixed costs at a rate equal to or above the rate of the decline in sales. Sony is also working to combat digital piracy and

Table of Contents

generate profits through digital distribution of content, most notably through its launch of the Connect music store, a digital downloading service. Finally, in an effort to achieve significant operational efficiencies, Sony is seeking to merge its recorded music business with BMG. In December 2003, Sony and Bertelsmann AG announced that they had signed a binding agreement to combine their recorded music businesses in a joint venture. The newly formed company, which will be known as Sony BMG, will be 50% owned by each parent company. The merger is subject to regulatory approvals in the U.S. and the European Union.

Pictures

In the Pictures segment, Sony faces intense competition, rising advertising and promotion expenses and a growing trend toward digital piracy. To meet these challenges, Sony is working to distribute a diversified portfolio of motion pictures and capitalize on the expanding DVD home entertainment market, which is becoming a more significant source of revenues and profits. Additionally, to differentiate itself in the marketplace and to proactively address risks of digital piracy, Sony Pictures Digital is developing broadband network strategies to facilitate the integration between Sony s hardware and content products and create protected revenue-generating alternatives.

Financial Services

In the Financial Services segment, the value of assets accumulated by the businesses in the segment has grown continuously over the past several fiscal years, resulting in a large portion of Sony s total assets being accounted for by the Financial Services segment. To strengthen asset management and risk management in parallel with this growing asset value, enhance disclosure of business details, and offer customers integrated financial services tailored to their individual needs, Sony established Sony Financial Holdings Inc. in April 2004. This company is comprised of Sony Life, Sony Assurance and Sony Bank, and will serve to increase the synergies between these businesses.

Forecast of Consolidated Results

Factors which may affect Sony s financial performance include the following: market conditions, including general economic conditions, in major areas where Sony conducts its businesses, levels of consumer spending, foreign exchange fluctuations, Sony s ability to continue to design, develop, manufacture, sell, and win acceptance of its products and services, Sony s ability to continue to implement personnel reduction and other business reorganization initiatives, Sony s ability to implement its network strategy, and implement successful sales and distribution strategies in the light of the Internet and other technological developments, Sony s ability to devote sufficient resources to research and development, and capital expenditures, and the success of Sony s joint ventures and alliances. Risks and uncertainties also include the impact of any future events with material unforeseen impacts. Refer also to the *Cautionary Statement* .

Regarding the forecast of consolidated results for the fiscal year ending March 31, 2005, sales and operating revenue is expected to increase slightly compared with the fiscal year ended March 31, 2004. Operating income, income before income taxes, and net income are also expected to increase. This forecast assumes that the yen for the fiscal year ending March 31, 2005 will strengthen against the U.S. dollar and the euro compared with the fiscal year ended March 31, 2004.

During the fiscal year ending March 31, 2005, primarily in the Electronics segment, restructuring charges of approximately 130 billion yen are expected to be incurred across the Sony Group. 168.1 billion yen in restructuring charges were recorded in the fiscal year ended March 31, 2004.

In April 2004, a settlement was reached in a lawsuit between InterTrust, an equity affiliate of Sony, and Microsoft regarding patents held by InterTrust. In return for the provision of a license to Microsoft, InterTrust received 440 million U.S. dollars. As a result of this settlement, Sony expects to record approximately 100 million U.S. dollars in equity in net income of InterTrust during the fiscal year.

Electronics

Sales of products such as digital still cameras, flat panel televisions and DVD recorders are expected to continue to increase, resulting in an anticipated increase in overall sales of the segment, despite an expected decrease in sales of CRT televisions. Operating income is expected to increase due to the increase in sales and the benefit of restructuring activities undertaken in the previous fiscal year, despite an anticipated appreciation of the yen and an expected increase in research and development costs.

From the fiscal year ending March 31, 2005, research and development costs associated with process technologies, including those technologies used in the Game segment, which were previously recorded in the Game segment, will be recorded in the Electronics segment, due to the integration of the semiconductor businesses in the Electronics and Game segments.

Game

Although software production shipments are expected to remain unchanged year on year, production shipments of PS one and PlayStation 2 hardware are expected to decrease compared with the previous year, resulting in a decrease in sales for the segment. Although a portion of research and development costs will be recorded in the Electronics segment, as described above and in *Research and Development* below, operating income is expected to decrease due to continued investment in products such as the PSP handheld entertainment system and the next generation computer entertainment system.

Music

Sales are expected to decrease due to an anticipated continued contraction of the market for music and a reduction in the unit price of DVDs in the manufacturing division. However, due to factors such as the benefits of restructuring activities already carried out, operating income is expected to increase.

Pictures

Sales are expected to decrease due to the absence of the significant television revenues in the fiscal year ended March 31, 2004. However, operating income is expected to remain unchanged primarily due to the contribution of films scheduled for release during the year, most notably *Spider-Man 2.*

Financial Services

Although an increase in insurance-in-force is expected at Sony Life, a decrease in insurance revenue is expected due to a change, at Sony Life, in the recognition method of insurance premiums received on certain products from being recorded as revenue to being offset against the related provision for future insurance policy benefits. A decrease in operating income is also expected because valuation gains from marketable securities are not included in the forecast.

Capital Expenditures

In the fiscal year ending March 31, 2005, capital expenditures (additions to fixed assets) are expected to be 410 billion yen, an increase of 8 percent compared with the previous year. More than 90 percent of the amount is expected to be spent in the Electronics and Game segments. Of this amount, capital expenditures on semiconductors (in the Electronics and Game segments) during the fiscal year are expected to amount to 190 billion yen (actual amount in the fiscal year ended March 31, 2004 was 175 billion yen). Of the capital expenditures on semiconductors, 120 billion yen is expected to be spent for the installation of semiconductor production equipment designed for next generation broadband microprocessors (actual amount in the fiscal year ended March 31, 2004 was 69 billion yen). For an explanation regarding fund procurement, refer to *Capital Resources* above.

Depreciation and Amortization

In the fiscal year ending March 31, 2005, expenses for depreciation and amortization, which includes the amortization of intangible assets and the amortization of deferred insurance acquisition costs, are expected to be 370 billion yen, an increase of 1 percent compared with the previous year. Although expenses for the amortization of deferred insurance acquisition costs in the Financial Services segment are expected to decrease, total expenses for depreciation and amortization in the Electronics and Game segments are expected to increase.

Research and Development

Sony expects research and development costs (total of expenses for the development of new product prototypes and expenses for the development of mid-to long-term new technologies) for the fiscal year ending March 31, 2005 to be 550 billion yen, a 7 percent increase compared with the fiscal year ended March 31, 2004. Research and development costs associated with process technologies, including those technologies used in the Game segment, which were previously recorded in the Game segment, will be recorded in the Electronics segment from the fiscal year ending March 31, 2005, due to the integration of the semiconductor businesses in the Electronics and Game segments. As a result, research and development costs in the Electronics segment are expected to increase more than 10 percent compared with the 429.4 billion yen recorded in the previous year. On the other hand, in the Game segment, overall research and development costs are expected to decrease by only 10 percent compared to the 83.4 billion yen recorded in the previous year. The relatively small decrease is due to the fact that, although research and development costs associated with process technologies will decrease, research and development costs associated with next generation semiconductor design, new platforms such as the PSP and software are expected to increase.

CRITICAL ACCOUNTING POLICIES

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

Investments

Sony s investments are comprised of debt and equity securities accounted for under both the cost and equity method of accounting. If it has been determined that an investment has sustained an other-than-temporary decline in its value, the investment is written down to its fair value by a charge to earnings. Sony regularly evaluates its investment portfolio to identify other-than-temporary impairments of individual securities. Factors that are considered by Sony in determining whether an other-than-temporary decline in value has occurred include: the length of time and extent to which the market value of the security has been less than its original cost, the financial condition, operating results, business plans and estimated future cash flows of the issuer of the security, other specific factors affecting the market value, deterioration of credit condition of the issuers, sovereign risk, and ability to retain the investment for a period of time sufficient to allow for the anticipated recovery in market value.

In evaluating the factors for available-for-sale securities whose fair values are readily determinable, management presumes a decline in value to be other-than-temporary if the fair value of the security is

Table of Contents

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% or such decline has not existed for an extended period of time, as a result of considering specific factors which may indicate the decline in the fair value is other-than-temporary.

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

Impairment of long-lived assets

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

Management believes that the estimates of future cash flows and fair value are reasonable; however, changes in estimates resulting in lower future cash flows and fair value due to unforeseen changes in business assumptions could negatively affect the valuations of those long-lived assets. These unforeseen changes include a possible further decline in demand for TV display CRTs due to a shift in demand from CRT displays to LCD and plasma panel displays.

In the year ended March 31, 2003, Sony recorded impairment charges for long-lived assets totaling 12.4 billion yen. It included 8.1 billion yen for the impairment of semiconductor and computer display CRT manufacturing equipment to be abandoned or to be sold in connection with certain restructuring activities in the Electronics segment. It also included 2.7 billion yen for the impairment of a CD manufacturing facility in the U.S., the fair value of which was estimated by using methods such as a survey of the local real estate market.

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

Goodwill and Other Intangible Assets

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

Determining the fair value of a reporting unit under the first step of the goodwill impairment test and determining the fair value of individual assets and liabilities of a reporting unit (including unrecognized intangible assets) under the second step of the goodwill impairment test is judgmental in nature and often involves the use of significant estimates and assumptions. Similarly, estimates and assumptions are used in determining the fair value of other intangible assets. These estimates and assumptions could significantly impact whether or not an impairment charge is recognized as well as the magnitude of any such charge. In its impairment review, Sony performs internal valuation analyses or utilizes third-party valuations when management believes it to be appropriate, and considers other market information that is publicly available. Estimates of fair value are primarily determined using discounted cash flow analysis. This approach uses significant estimates and assumptions including projected future cash flows, the timing of such cash flows, discount rates reflecting the risk inherent in future cash flows, perpetual growth rates, determination of appropriate market comparables and the determination of whether a premium or discount should be applied to comparables. During the year ended March 31, 2004, Sony recorded a charge for the impairment of goodwill of 6.0 billion yen 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 utilizing a third party valuation.

Management believes that the estimates of future cash flows and fair value are reasonable; however, changes in estimates resulting in lower future cash flows and fair value due to unforeseen changes in business assumptions could negatively affect the valuations, which may result in Sony recognizing impairment charges for goodwill and other intangible assets in the future. As of March 31, 2004, a 10% decrease in the fair value of each of Sony s reporting units would not have resulted in a material impairment charge.

Pension benefits costs

Employee pension benefit costs and obligations are dependent on certain assumptions including discount rates, retirement rates and mortality rates, which are based upon current statistical data, as well as expected long-term rates of return on plan assets and other factors. Specifically, the discount rate and expected long-term rate of return on assets are two critical assumptions in the determination of periodic pension costs and pension liabilities. Assumptions are evaluated at least annually and when events occur or circumstances change which could have a significant effect on these critical assumptions. In accordance

Table of Contents

with U.S. GAAP, actual results that differ from the assumptions are accumulated and amortized over future periods. Therefore, actual results generally affect recognized expenses and the recorded obligations for pensions in future periods. While management believes that the assumptions used are appropriate, differences in actual experience or changes in assumptions may affect Sony s pension obligations and future expense.

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

Sony used a discount rate of 2.4% for its Japanese pension plans as of March 31, 2004. The discount rate was determined by using available information about rates of return on high-quality fixed-income investments currently available and expected to be available during the period to maturity of the pension benefit obligation. The 2.4% discount rate represents a 50 basis point increase from the 1.9% discount rate used for year ended March 31, 2003 and reflects current market interest rate conditions. For Japanese plans, a 50 basis point increase in the discount rate would decrease pension costs by approximately 12.0 billion yen, compared to the year ended March 31, 2004.

To determine the expected long-term rate of return on pension plan assets, Sony considers the current and expected asset allocations, as well as historical and expected long-term rates of return on various categories of plan assets. For Japanese pension plans, the expected long-term rate of return on pension plan assets was 4.0% as of March 31, 2003 and 2004. The actual return on pension plan assets for the year ended March 31, 2004 was 23.0%. Consistent with U.S. GAAP, actual results that differ from the expected return on plan assets are accumulated and amortized as a component of pension expense over the average future service period, thereby reducing the year-to-year volatility in pension expense. At March 31, 2003 and 2004, Sony had unrecognized actuarial losses of 513.0 billion yen and 328.5 billion yen, respectively, including losses related to plan assets. For the year ended March 31, 2004, the unrecognized actuarial loss decreased primarily due to the improved performance of equity markets. The unrecognized actuarial losses reflect the overall unfavorable performance of equity markets over the past several years and will result in an increase in pension expense as they are recognized.

Sony recorded a liability for the unfunded accumulated benefit obligation for Japanese pension plans of 308.7 billion yen and 149.4 billion yen as of March 31, 2003 and 2004, respectively. This liability represents the excess of the accumulated benefit obligation under Sony s qualified defined benefit pension plans over the fair value of the plans assets. In accordance with U.S. GAAP, this liability was established by a charge to stockholders equity, resulting in no impact to the accompanying consolidated statements of income.

The following table illustrates the sensitivity to a change in the discount rate and the expected return on pension plan assets, while holding all other assumptions constant, for Japanese pension plans as of March 31, 2004:

Change in Assumption	Pre-Tax PBO	Pension Expense	Equity (Net of Tax)
		(Yen in billions)	
25 basis point increase/decrease in discount rate	-/+ 50.0	-/+ 6.0	+/- 3.4
25 basis point increase/decrease in expected return on assets		-/+ 1.0	+/- 0.6

Deferred tax asset valuation

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

Sony applied to file its corporate income tax return under the consolidated tax filing system in Japan beginning with the fiscal year ended March 31, 2004. Under the consolidated tax filing system, the tax-filing unit consists of Sony Corporation, the ultimate parent company of the Sony Group, and its fully owned Japanese subsidiaries. The eventual realizability of the tax benefit of its deferred tax assets is dependent on whether the tax-filing unit generates sufficient taxable income in the future. In addition, Sony is subject to local income taxes in Japan, in which, the tax-filing unit, for purposes of local income taxes, is on a stand alone entity basis. The eventual realizability of the tax benefit of deferred tax assets for local income taxes is dependent on whether Sony Corporation and each subsidiary generates sufficient taxable income in future. As of March 31, 2004, Sony Corporation had deferred tax assets for local income taxes totaling 86.5 billion yen. The eventual realizability of the tax benefit of its deferred tax assets is dependent on whether Sony Corporation generates sufficient taxable income in the future. Management believes that Sony Corporation s historical results, when evaluated in connection with relevant qualitative factors and available information concerning its business and industry, provided substantial positive evidence, which outweighs the negative evidence available. However, under recent conditions, management considers that it is possible that Sony Corporation s future results may yield sufficient negative evidence to support the conclusion that it is more likely than not that Sony Corporation will not realize the tax benefit of all these deferred tax assets. If this is the case, subject to review of relevant qualitative factors and uncertainties, Sony may establish a valuation allowance against part or all of the deferred tax assets of Sony Corporation that would be charged to income as an increase in tax expense.

As of March 31, 2004, the U.S. subsidiaries of Sony had a valuation allowance of 81.0 billion yen against deferred tax assets for federal and certain state taxes. Since the U.S. subsidiaries did not have a sufficient history of taxable income at this time to conclude that it is more likely than not that the tax benefit from these deferred tax assets would be realized, a valuation allowance was established. Management believes this lack of sufficient earnings history, when evaluated in connection with relevant qualitative factors and uncertainties concerning the U.S. subsidiaries businesses and industries, provided substantial negative evidence, which outweighs any positive evidence, regarding the eventual realizability of the tax benefit of the deferred tax assets as of March 31, 2004. However, under recent conditions, management considers that it is possible that the U.S. subsidiaries future results may yield sufficient positive evidence to support the conclusion that it is more likely than not that the U.S. subsidiaries could realize the tax benefit of these deferred tax assets and that such a conclusion may be reached as early as during the fiscal year ending March 31, 2005. If this is the case, subject to review of relevant qualitative factors and uncertainties, Sony may reverse part or all of the valuation allowance that would be recognized into income as a reduction to tax expense.

Film accounting

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

Management bases its estimates of ultimate revenue for each film on several factors including the historical performance of similar genre films, the star power of the lead actors and actresses, the expected number of theaters at which the film will be released, anticipated performance in the home entertainment, television and other ancillary markets, and agreements for future sales. Management updates such

Table of Contents

estimates based on the actual results to date of each film. For example, a film that has resulted in lower than expected theatrical revenues in its initial weeks of release would generally have its theatrical, home video and distribution ultimate revenues adjusted downward; a failure to do so would result in the understatement of amortized film costs for the period. Since the total film cost to be amortized for a given film is fixed, the estimate of ultimate revenues impacts only the timing of film cost amortization.

Future insurance policy benefits

Long-term liabilities for future policy benefits are established in amounts adequate to meet the estimated future obligations of policies in force. These liabilities are computed by the net level premium method based upon estimates as to future investment yield, mortality, morbidity, withdrawals and other factors. Future policy benefits are computed using interest rates ranging from approximately 1.00% to 5.50%. Mortality, morbidity and withdrawal assumptions for all policies are based on either the life insurance subsidiary s own experience or various actuarial tables. Generally these assumptions are locked-in upon the issuance of new insurance. While management believes that the assumptions used are appropriate, differences in actual experience or changes in assumptions may affect Sony s future insurance policy benefits.

For a summary of Sony s significant accounting policies, including the critical accounting policies discussed above, please see Note 2 of Notes to the Consolidated Financial Statements.

RECENTLY ADOPTED ACCOUNTING STANDARDS

Employers Disclosures about Pensions and Other Postretirement Benefits

In December 2003, the FASB revised Statement of Financial Accounting Standards (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 . The new FAS No. 132 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, the new FAS No. 132 requires additional disclosures about assets, obligations, cash flows, and net periodic benefit costs of defined benefit plans and other defined benefit postretirement plans. The provisions of the new FAS No. 132 are generally effective for financial statements with fiscal years ending after December 15, 2003, excluding the disclosure of certain information about foreign plans, which shall be effective for fiscal years ending after June 15, 2004. In accordance with the transition provisions of the new FAS No. 132, the disclosure provisions have been adopted in the consolidated financial statements.

Consolidation of Variable Interest Entities

In January 2003, the FASB issued FIN No. 46, Consolidation of Variable Interest Entities an Interpretation of ARB No. 51 , which addresses consolidation by a primary beneficiary of a VIE. FIN No. 46 became effective immediately for all new VIEs created or acquired after January 31, 2003. Sony has not entered into any new agreements with VIEs on or after February 1, 2003. For VIEs created or acquired prior to February 1, 2003, Sony early adopted the provisions of FIN No. 46 on July 1, 2003. Under FIN No. 46, any difference between the net amount added to the balance sheet and the amount of any previously recognized interest in the VIE shall be recognized as a cumulative effect of accounting changes. As a result of adopting FIN No. 46, Sony recognized a one-time charge with no tax effect of 2.1 billion yen as a cumulative effect of accounting change in the consolidated statement of income, and Sony s assets and liabilities increased by 95.3 billion yen and 98.0 billion yen, respectively. These increases were treated as non-cash transactions in the consolidated statements of cash flows. In addition, cash and cash equivalents increased by 1.5 billion yen. See Consolidated Financial Statements Note 21 for further discussion on the VIEs that are used by Sony.

In December 2003, the FASB issued a revision to FIN No. 46 (FIN No. 46R), which replaces FIN No. 46. FIN No. 46R retains many of the basic concepts introduced in FIN No. 46; however, it also introduces a new scope exception for certain types of entities that qualify as a business as defined in FIN No. 46R, revises the method of calculating expected losses and residual returns for determination of a primary beneficiary, and includes new guidance for assessing variable interests. 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.

Impairment of securities investments

In November 2003, the Emerging Issues Task Force (EITF) reached a consensus on EITF Issue No. 03-01, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments . EITF Issue No. 03-01 establishes additional disclosure requirements for each category of FAS No. 115 investments in a loss position. In March 2004, the EITF also reached a consensus on the additional accounting guidance for other-than-temporary impairments and its application to debt and equity investments. In accordance with the new disclosure requirements under EITF Issue No. 03-01, the disclosure in the consolidated financial statements has been expanded to include certain additional information regarding Sony s securities investments.

Multiple Element Revenue Arrangements

In November 2002, the FASB issued EITF Issue No. 00-21, Accounting for Revenue Arrangements with Multiple Deliverables . EITF Issue No. 00-21 provides guidance on when and how to account for arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. Sony adopted EITF Issue No. 00-21 on July 1, 2003. The adoption of EITF Issue No. 00-21 did not have a material impact on Sony s results of operations and financial position for the year ended March 31, 2004.

Derivative Instruments and Hedging Activities

In April 2003, the FASB issued FAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities . This statement amends and clarifies financial accounting and reporting for derivative instruments, including derivative instruments embedded in other contracts and for hedging activities under FAS No. 133. 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.

Accounting for Asset Retirement Obligations

On April 1, 2003, Sony adopted FAS No. 143, Accounting for Asset Retirement Obligations , which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The adoption of FAS No. 143 did not have a material impact on Sony s results of operations and financial position for the year ended March 31, 2004.

Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity

In May 2003, the FASB issued FAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity . FAS No. 150 establishes standards for how certain financial instruments with characteristics of both liabilities and equity shall be classified and measured. Sony adopted FAS No. 150 during the first quarter of the year ended March 31, 2004. The adoption of FAS No. 150 did not have an impact on Sony s results of operations and financial position for the year ended March 31, 2004.

Table of Contents

RECENT PRONOUNCEMENTS

Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts

In July 2003, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position (SOP) 03-1, Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate accounts . SOP 03-1 provides guidance on accounting and reporting by insurance enterprises for certain nontraditional long-duration contracts and for separate accounts. This statement shall be effective for fiscal years beginning after December 15, 2003. Sony is currently evaluating the impact of adopting this guidance.

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

Directors and Senior Management

Set forth below are the current Sony Corporation Board of Directors and Corporate Executive Officers, their date of birth, the year in which they were first elected, their current position at the Sony Group, prior positions, and other principal business activities outside the Sony Group as of June 22, 2004.

Board of Directors

Nobuyuki Idei
Date of Birth: November 22, 1937
Director (Member of the Board) Since: 1989
Current Positions: Chairman and Group Chief Executive Officer, Representative Corporate Executive Officer
Prior Positions:

2000	Chairman and Chief Executive Officer, Representative Director, Sony Corporation
1999	President and Representative Director, Chief Executive Officer, Sony Corporation
1995	President and Representative Director, Chief Operating Officer, Sony Corporation
1990	Senior General Manager, Advertising & Marketing Communication Strategy Group, Sony Corporation
1989	Director, Sony Corporation
1988	Senior General Manager, Home Video Group, Sony Corporation
1960	Entered Sony Corporation

Principal Business Activities Outside Sony:
Director of Nestlé S.A., Switzerland

Table of Contents

Kunitake Ando
Date of Birth: January 1, 1942
Director (Member of the Board) Since: 2000 (and from 1994 through 1997)
Current Positions: President and Global Hub President, Representative Corporate Executive Officer, Officer in charge of Personal Solutions Business Group
Prior Positions:

2003	President and Group Chief Operating Officer, Representative Corporate Executive Officer, Sony Corporation
2000	President and Chief Operating Officer, Representative Director, Sony Corporation
1999	President and Chief Operating Officer, Personal IT Network Company, Sony Corporation
1994	Director, Sony Corporation
1990	President and Chief Operating Officer, Sony Engineering and Manufacturing of America
1985	Deputy President, Sony Prudential Life Insurance Co., Ltd.
1969	Entered Sony Corporation

Principal Business Activities Outside Sony: None

Teruo Masaki
Date of Birth: August 7, 1943
Director (Member of the Board) Since: 1999
Current Positions: Executive Deputy President and Group General Counsel, Corporate Executive Officer
Prior Positions:

2000	Corporate Senior Executive Vice President, Director, Sony Corporation
1999	Senior Managing Director, Sony Corporation
1997	Executive Vice President, Sony Corporation of America
1991	Deputy Senior General Manager, Legal and Intellectual Property Group, Sony Corporation
1971	Entered Sony Corporation

Principal Business Activities Outside Sony: None

Howard Stringer
Date of Birth: February 19, 1942
Director (Member of the Board) Since: 1999
Current Positions: Vice Chairman and Sony Group Americas Representative, Chief Operating Officer in charge of Entertainment Business Group, Corporate Executive Officer, Sony Corporation, Chairman and Chief Executive Officer, Sony Corporation of America, Chairman, Sony Electronics Inc.
Prior Positions:

1999	Director, Sony Corporation
1997	President, Sony Corporation of America
1995	Chairman and Chief Executive Officer, TELE-TV, U.S.A.
1988	President, CBS Broadcast Group, CBS Inc., U.S.A.
1986	President, CBS News, U.S.A.

Principal Business Activities Outside Sony:
Director of InterContinental Hotels Group

Ken Kutaragi
Date of Birth: August 2, 1950
Director (Member of the Board) Since: 2000
Current Positions: Executive Deputy President, Chief Operating Officer in charge of Game Business Group, Home Electronics Network Company, Semiconductor Solutions Network Company (SSNC), Corporate Executive Officer, NC President, SSNC
Prior Positions:

2000	Director, Sony Corporation
1999	Executive President, Sony Computer Entertainment Inc.
1991	Manager, PS Project, Video Disc Player Group, Sony Corporation
1975	Entered Sony Corporation

Principal Business Activities Outside Sony: None

Teruhisa Tokunaka
Date of Birth: August 9, 1945
Director (Member of the Board) Since: 1999
Current Positions: President, Representative Director, Sony Financial Holdings Inc.
Prior Positions:

2003	Group Chief Strategy Officer, Representative Corporate Executive Officer, Officer in charge of Network Application & Content Service Sector, Personal Solutions Business Group, Sony Corporation
2000	Executive Deputy President and Chief Financial Officer, Representative Director, Sony Corporation
1999	Senior Managing Director and Chief Financial Officer, Sony Corporation
1995	President, Sony Computer Entertainment Inc.
1989	Deputy Senior General Manager, Corporate Strategy Group, Sony Corporation
1969	Entered Sony Corporation

Principal Business Activities Outside Sony: None

Göran Lindahl
Date of Birth: April 28, 1945
Director (Member of the Board) Since: 2001