BHP BILLITON LTD
Form 6-K
August 20, 2013

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

Pursuant to Rule 13a-16 or 15d-16 of

the Securities Exchange Act of 1934

August 20, 2013

Commission File Number	Translation of registrant's name into English; Address of principal executive offices
	BHP Billiton Limited (ABN 49 004 028 077) 180 LONSDALE STREET, MELBOURNE, VICTORIA 3000 AUSTRALIA
-	BHP Billiton Plc (REG. NO. 3196209) NEATHOUSE PLACE, VICTORIA, LONDON, UNITED KINGDOM

Indicate by check mark whether the registrant files or will

file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F _X_ Form 40-F __

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): __

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): __

Indicate by check mark whether the registrant by furnishing the

information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the

Securities Exchange Act of 1934.

Yes __ No _X_

If "Yes" is marked, indicate below the file number assigned to the

registrant in connection with Rule 12g3-2(b): 82-.

NEWS RELEASE

Release Time:
IMMEDIATE

Date:
20 August 2013

Number:
20/13

US$2.6 BILLION INVESTMENT IN JANSEN POTASH PROJECT

BHP Billiton is investing US$2.6 billion to finish the excavation and lining of the Jansen Potash project production and service shafts, and to continue the installation of essential surface infrastructure and utilities. This investment will be spread over a number of years, with completion of both shafts expected during the 2016 calendar year, while the associated works program will extend into the 2017 calendar year.

The longer term outlook for potash, a fertiliser that improves the yield and quality of agricultural production, is strong. As the world's population grows and incomes in emerging economies improve, agricultural demand is expected to rise. This will increase the need for potash and require the construction of new mines. Our projections assume a shift away from the current marketing dynamic and we believe the potash price will ultimately reflect the cost of adding new supply.

Jansen is the world's best undeveloped potash resource and is capable of supporting a mine with annual capacity of ten million tonnes for more than 50 years. With economies of scale and the use of modern mining techniques, Jansen is likely to be one of the lowest cost sources of supply once fully developed. The successful excavation and lining of both shafts will substantially reduce development risk and allow the company to time first production to meet growth in market demand.

BHP Billiton Chief Executive Officer, Andrew Mackenzie, said: "Annual investment at Jansen of approximately $800 million will form an important part of the Group's capital and exploration budget, which will decline to approximately US$16 billion this year. Continued development of the shafts reflects our confidence in the quality of our 5.3 billion tonne measured resource and the compelling long term fundamentals of the potash industry.

"Investment at Jansen is creating a valuable asset and we will continue to pursue a development path that maximises returns for shareholders. In time, this may include the introduction of one or more partners, consistent with our approach for other major operations."

BHP Billiton Petroleum and Potash President, Tim Cutt said: “Potash and Jansen represent a significant opportunity for BHP Billiton. Saskatchewan, with its attractive geology and stable political and fiscal environment, is the best place in the world to develop a potash business. Our construction activities are going well and we have successfully introduced specialised boring machines that reduce the development timeframe and safety risk associated with construction of the shafts. This technology has been in operation for several months and we are very pleased with the results.”

BHP Billiton has also increased the in situ Mineral Resource tonnage estimate for Jansen, which incorporates: additional freehold mineral rights that have been acquired; advanced data analysis and improved estimation methods; and the inclusion of additional Inferred Resource within the granted mining lease. Resource confidence has also increased and we have converted significant tonnages of Indicated Resources to Measured Resources. Consequently, the updated resource estimate for Jansen increases to 5,328 million tonnes Measured Resource @ 25.7% K2O, 7.1% insolubles and 0.07% MgO and 1,288 million tonnes Inferred Resource @ 25.7% K2O, 7.1% insolubles and 0.07%MgO.

The Jansen Potash project is 100 per cent owned by BHP Billiton and is located 140 kilometres from Saskatoon, Canada. Today’s approval will take the Company’s total commitment to Jansen to approximately US$3.8 billion.

Competent Persons – J.McElroy (MAusIMM) BHP Billiton, B.Nemeth (MAusIMM) BHP Billiton

BHP Billiton has 100% equity.

%K2O – potassium oxide, Insolubles – insoluble content, MgO – magnesium oxide. %MgO is generally used as a measure of carnallite (KCl.MgCl2.6H2O) content where % carnallite equivalent = %MgO x 6.8918. However, in the above statement the main source of the stated MgO content is the dolomite fraction of the insoluble material. Areas of known geological anomalies, carnallitite (which comprises carnallite, halite and minor associated insolubles) and privately owned mineral tenure, not yet acquired, have been removed from the estimate.

The Mineral Resource is stated for the Lower Patience Lake potash unit. All material between the top “406” clay seam and base “402” clay seam has been included and no cut-off grade has been applied. No further modifying or mining extraction factors have been applied to the Mineral Resource.

Competent Person’s Statement

The statement of Mineral Resource being presented is based on information compiled by the above named Competent Persons and relates to Mineral Resource estimates as at 30 June 2013. Competent Persons are full time employees of BHP Billiton, have sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity they are undertaking to qualify as a Competent Person as defined in the JORC Code 2004. All Competent Persons are members of the Australian Institute of Mining & Metallurgy (AusIMM). The Competent Persons consent to the inclusion in this report of the matters based on their information in the form and context in which it appears.

Further information on BHP Billiton can be found at: www.bhpbilliton.com.

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BHP Billiton Limited
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Members of the BHP Billiton Group which is headquartered in Australia

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SIGNATURES

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

BHP Billiton Limited (ABN 49 004 028 077) BHP Billiton Plc (REG. NO. 3196209)

Date : August 20, 2013	By:	/s/ Jane McAloon
	Name:	Jane McAloon
	Title:	Group Company Secretary

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Balance at March 31, 2003

3,917	472,361	984,196	1,301,740	(471,978)	(9,341)	2,280,895

(Continued on following page.)

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SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (Continued)

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

Foreign currency translation adjustments:							
Translation adjustments arising during the period					(129,113)		(129,113)
Less: Reclassification adjustment for losses included in net income					1,232		1,232
Total comprehensive income							110,530
Stock issue costs, net of tax				(53)			(53)
Dividends declared				(23,138)			(23,138)
Purchase of treasury stock						(8,523)	(8,523)
Reissuance of treasury stock			(776)			5,681	4,905
Balance at March 31, 2004	3,917	476,350	992,817	1,367,060	(449,959)	(12,183)	2,378,002

(Continued on following page.)

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SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (Continued)

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

Foreign currency translation adjustments:							
Translation adjustments arising during the period					74,224		74,224
Total comprehensive income							228,122
Stock issue costs, net of tax				(541)			(541)
Dividends declared				(24,030)			(24,030)
Purchase of treasury stock						(416)	(416)
Reissuance of treasury stock			(342)	(245)		6,599	6,012
Balance at March 31, 2005	3,917	617,792	1,134,222	1,506,082	(385,675)	(6,000)	2,870,338

SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES
INDEX TO NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Notes to Consolidated Financial Statements

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SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. *Nature of operations*

Sony Corporation and consolidated subsidiaries (hereinafter collectively referred to as Sony) are engaged in the development, design, manufacture, and sale of various kinds of electronic equipment, instruments, and devices for consumer and industrial markets. Sony also develops, produces, manufactures, and markets home-use game consoles and software. Sony s principal manufacturing facilities are located in Japan, the United States of America, Europe, and Asia. Its electronic products are marketed throughout the world and game products are marketed mainly in Japan, the United States of America and Europe by sales subsidiaries and unaffiliated local distributors as well as direct sales via the Internet. Sony is engaged in the development, production, manufacture, marketing, distribution and broadcasting of image-based software, including film, video and television product. Sony is also engaged in the development, production, manufacture, and distribution of recorded music, in all commercial formats and music genres. Further, Sony is engaged in various financial service businesses including insurance operations through a Japanese life insurance subsidiary and non-life insurance subsidiaries, banking operations through a Japanese internet-based banking subsidiary and leasing and credit financing operations in Japan. In addition to the above, Sony is engaged in Internet-related businesses, an animation production and marketing business, an imported general merchandise retail business, an IC card business and an advertising agency business in Japan.

2. *Summary of significant accounting policies*

Sony Corporation and its subsidiaries in Japan maintain their records and prepare their financial statements in accordance with accounting principles generally accepted in Japan while its foreign subsidiaries maintain their records and prepare their financial statements in conformity with accounting principles generally accepted in the countries of their domiciles. Certain adjustments and reclassifications have been incorporated in the accompanying consolidated financial statements to conform with accounting principles generally accepted in the United States of America (U.S. GAAP). These adjustments were not recorded in the statutory books of account.

(1) Newly adopted accounting pronouncements:

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

In July 2003, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants (AcSEC) issued the Statement of Position (SOP) 03-1, Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts . SOP 03-1 requires insurance enterprises to record additional reserves for long-duration life insurance contracts with minimum guarantee or annuity receivable options. Additionally, SOP 03-1 provides guidance for the presentation of separate accounts. This statement is effective for fiscal years beginning after December 15, 2003. Sony adopted SOP 03-1 on April 1, 2004. As a result of the adoption of SOP 03-1, Sony s operating income decreased by 5,156 million yen for the year ended March 31, 2005. Additionally, on April 1, 2004, Sony recorded a 4,713 million yen charge (net of income taxes of 2,675 million yen) as a cumulative effect of an accounting change. In addition, the separate account assets, which are defined by insurance business law in Japan and were previously included in Securities investments and other in the consolidated balance sheet, were excluded from the category of separate accounts under the provision of SOP 03-1. Accordingly, the assets previously treated as separate account assets are now treated within general account assets (Note 7).

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

In July 2004, the Emerging Issues Task Force (EITF) issued EITF Issue No. 04-8, The Effect of Contingently Convertible Instruments on Diluted Earnings per Share . In accordance with Statement of

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SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Employers Disclosures about Pensions and Other Postretirement Benefits -

In December 2003, the Financial Accounting Standards Board (FASB) issued FAS No. 132 (revised 2003), Employers Disclosures about Pensions and Other Postretirement Benefits (FAS No. 132(R)), which revised FAS No. 132, Employers Disclosures about Pensions and Other Postretirement Benefits , an amendment of FAS No. 87, Employers Accounting for Pensions , FAS No. 88, Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits , and FAS No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions . FAS No. 132(R) revised employers disclosures about pension plans and other postretirement benefit plans. It did not change the measurement or recognition of those plans required by FAS No. 87, 88 and 106. While retaining the disclosure requirements of FAS No. 132, FAS No. 132(R) requires additional disclosures about assets, obligations and cash flows. The provisions of FAS No. 132(R) were generally effective for financial statements with fiscal years ending after December 15, 2003, excluding the disclosure of certain information about foreign plans. The information about foreign plans is effective for fiscal years ending after June 15, 2004. In accordance with FAS No. 132(R), Note 14, Pension and severance plans, has been expanded to include the new disclosures.

Consolidation of Variable Interest Entities -

In January 2003, the FASB issued FASB Interpretation (FIN) No. 46, Consolidation of Variable Interest Entities an Interpretation of ARB No. 51 . FIN No. 46 addresses consolidation by a primary beneficiary of a variable interest entity (VIE). Sony early adopted the provisions of FIN No. 46 on July 1, 2003. As a result of adopting the original FIN No. 46, Sony recognized a one-time charge with no tax effect of 2,117 million yen as a cumulative effect of accounting change in the consolidated statement of income, and Sony s assets and liabilities increased by 95,255 million yen and 97,950 million yen, respectively. These increases were treated as non-cash transactions in the consolidated statement of cash flows. In addition, cash and cash equivalents increased by 1,521 million yen. See Note 22 for further discussion on the VIEs that are used by Sony.

In December 2003, the FASB issued revised FIN No. 46 (FIN No. 46R), which replaced FIN No. 46. Sony early adopted the provisions of FIN No. 46R upon its issuance. The adoption of FIN No. 46R did not have an impact on Sony s results of operations and financial position or impact the way Sony had previously accounted for VIEs.

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SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(2) Significant accounting policies:

Basis of consolidation and accounting for investments in affiliated companies -

The consolidated financial statements include the accounts of Sony Corporation and its majority-owned subsidiary companies, general partnerships in which Sony has a controlling interest, and variable interest entities for which Sony is the primary beneficiary. All intercompany transactions and accounts are eliminated. Investments in business entities in which Sony does not have control, but has the ability to exercise significant influence over operating and financial policies generally through 20-50% ownership, are accounted for under the equity method. In addition, investments in general partnerships in which Sony does not have a controlling interest and limited partnerships are also accounted for under the equity method. Under the equity method, investments are stated at cost plus/minus Sony s equity in undistributed earnings or losses. Consolidated net income includes Sony s equity in current earnings or losses of such companies, after elimination of unrealized intercompany profits. If the value of an investment has declined and is judged to be other than temporary, the investment is written down to its fair value.

On occasion, a consolidated subsidiary or an affiliated company accounted for by the equity method may issue its shares to third parties in either a public or private offering or upon conversion of convertible debt to common stock at amounts per share in excess of or less than Sony s average per share carrying value. With respect to such transactions, where the sale of such shares is not part of a broader corporate reorganization and the reacquisition of such shares is not contemplated at the time of issuance, the resulting gains or losses arising from the change in interest are recorded in income for the year the change in interest transaction occurs. If the sale of such shares is part of a broader corporate reorganization, the reacquisition of such shares is contemplated at the time of issuance or realization of such gain is not reasonably assured (i.e., the entity is newly formed, non-operating, a research and development or start-up/development stage entity, or where the entity s ability to continue in existence is in question), the transaction is accounted for as a capital transaction.

The excess of the cost over the underlying net equity of investments in consolidated subsidiaries and affiliated companies accounted for on an equity basis is allocated to identifiable assets and liabilities based on fair values at the date of acquisition. The unassigned residual value of the excess of the cost over the underlying net equity is recognized as goodwill.

Use of estimates -

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Translation of foreign currencies -

All asset and liability accounts of foreign subsidiaries and affiliates are translated into Japanese yen at appropriate year-end current rates and all income and expense accounts are translated at rates that approximate those rates prevailing at the time of the transactions. The resulting translation adjustments are accumulated as a component of accumulated other comprehensive income.

Foreign currency receivables and payables are translated at appropriate year-end current rates and the resulting translation gains or losses are taken into income.

SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Cash and cash equivalents -

Cash and cash equivalents include all highly liquid investments, generally with original maturities of three months or less, that are readily convertible to known amounts of cash and are so near maturity that they present insignificant risk of changes in value because of changes in interest rates.

Marketable debt and equity securities -

Debt and equity securities designated as available-for-sale, whose fair values are readily determinable, are carried at fair value with unrealized gains or losses included as a component of accumulated other comprehensive income, net of applicable taxes. Debt and equity securities classified as trading securities are carried at fair value with unrealized gains or losses included in income. Debt securities that are expected to be held-to-maturity are carried at amortized cost. Individual securities classified as either available-for-sale or held-to-maturity are reduced to net realizable value by a charge to income for other than temporary declines in fair value. Realized gains and losses are determined on the average cost method and are reflected in income.

Equity securities in non-public companies -

Equity securities in non-public companies are carried at cost as fair value is not readily determinable. If the value of a non-public equity investment is estimated to have declined and such decline is judged to be other than temporary, Sony recognizes the impairment of the investment and the carrying value is reduced to its fair value. Determination of impairment is based on the consideration of such factors as operating results, business plans and estimated future cash flows. Fair value is determined through the use of such methodologies as discounted cash flows, valuation of recent financings and comparable valuations of similar companies.

Inventories -

Inventories in electronics, game and music as well as non-film inventories for pictures are valued at cost, not in excess of market, cost being determined on the average cost basis except for the cost of finished products carried by certain subsidiary companies in electronics which is determined on the first-in, first-out basis.

Film costs -

Film costs related to theatrical and television product (which includes direct production costs, production overhead and acquisition costs) are stated at the lower of unamortized cost or estimated fair value and classified as non-current assets. Film costs are amortized, and the estimated liabilities for residuals and participations are accrued, for an individual product based on the proportion that current period actual revenues bear to the estimated remaining total lifetime revenues. These estimates are reviewed on a periodic basis.

Property, plant and equipment and depreciation -

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is primarily computed on the declining-balance method for Sony Corporation and its Japanese subsidiaries, except for certain semiconductor manufacturing facilities whose depreciation is computed on the straight-line method, and on the straight-line method for its foreign subsidiaries at rates based on estimated useful lives of the assets, principally, ranging from 15 years up to 50 years for buildings and from 2 years up to 10 years for machinery and equipment. Significant renewals and additions are capitalized at cost. Maintenance and repairs, and minor renewals and betterments are charged to income as incurred.

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SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Goodwill and other intangible assets -

Goodwill and certain other intangible assets that are determined to have an indefinite life are not amortized and are tested for impairment on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value below its carrying amount. Fair value for those assets is generally determined using a discounted cash flow analysis.

Intangible assets that are determined not to have an indefinite life mainly consist of artist contracts, music catalogs, acquired patent rights and software to be sold, leased or otherwise marketed. Artist contracts and music catalogs are amortized on a straight-line basis over a period of up to 40 years. Acquired patent rights and software to be sold, leased or otherwise marketed are amortized on a straight-line basis over 3 to 10 years.

Accounting for computer software to be sold -

Sony accounts for software development costs in accordance with FAS No. 86, Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed .

In the Electronics segment, costs related to establishing the technological feasibility of a software product are expensed as incurred as a part of research and development in cost of sales. Costs that are incurred to produce the finished product after technological feasibility is established are capitalized and amortized over the estimated economic life of the product, which is generally three years. Sony performs periodic reviews to ensure that unamortized program costs remain recoverable from future revenue.

In the Game segment, technological feasibility of the underlying software is reached shortly before the products are released to manufacturing. Costs incurred after technological feasibility is established are not material, and accordingly, Sony expenses software development costs for the Game segment as incurred as a part of research and development in cost of sales.

Deferred insurance acquisition costs -

Costs that vary with and are primarily related to acquiring new insurance policies are deferred as long as they are recoverable. The deferred insurance acquisition costs include such items as commission, medical examination and inspection report fees. The deferred insurance acquisition costs for traditional life insurance contracts are amortized over the premium-paying period of the related insurance policies using assumptions consistent with those used in computing policy reserves. The deferred insurance acquisition costs for non-traditional life insurance contracts are amortized over the expected life in proportion to the estimated gross profits.

Product warranty -

Sony provides for the estimated cost of product warranties at the time revenue is recognized by either product category group or individual product. The product warranty is calculated based upon product sales, estimated probability of failure and estimated cost per claim. The variables used in the calculation of the provision are reviewed on a periodic basis.

Certain subsidiaries in the Electronics segment offer extended warranty programs. The consideration received through extended warranty service is deferred and amortized on a straight-line basis over the term of the extended warranty.

Future insurance policy benefits -

Liabilities for future insurance policy benefits are primarily comprised of the present value of estimated future payments to policyholders. These liabilities are computed by the net level premium method based upon

SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the assumptions such as future investment yield, morbidity, mortality and withdrawals. These assumptions are reviewed on a periodic basis. Liabilities for future insurance policy benefits also include liabilities for guaranteed benefits related to certain non-traditional long-duration life and annuity contracts.

Accounting for the impairment of long-lived assets -

Sony periodically reviews the carrying value of its long-lived assets held and used, other than goodwill and intangible assets with indefinite lives, and assets to be disposed of, whenever events or changes in circumstances indicated that the carrying amount may not be recoverable. Long-lived assets to be held and used are reviewed for impairment by comparing the carrying value of the assets with their estimated undiscounted future cash flows. If it is determined that an impairment loss has occurred, the loss would be recognized during the period. The impairment loss would be calculated as the difference between asset carrying value and the present value of estimated net cash flows or comparable market values, giving consideration to recent operating performance. Long-lived assets that are to be disposed of other than by sale are considered held and used until they are disposed of. Long-lived assets that are to be disposed of by sale are reported at the lower of their carrying value or fair value less cost to sell. Reductions in carrying value are recognized in the period in which the long-lived assets are classified as held for sale.

Derivative financial instruments -

All derivatives, including certain derivative financial instruments embedded in other contracts, are recognized as either assets or liabilities in the balance sheet at fair value. Changes in the fair value of derivative financial instruments are either recognized periodically in income or stockholders equity (as a component of accumulated other comprehensive income), depending on whether the derivative financial instrument qualifies as a hedge and the derivative is being used to hedge changes in fair value or cash flows.

In accordance with FAS No. 133, the derivative financial instruments held by Sony are classified and accounted as below.

Fair value hedges

Changes in the fair value of derivatives designated and effective as fair value hedges for recognized assets or liabilities or unrecognized firm commitments are recognized in earnings as offsets to changes in the fair value of the related hedged assets or liabilities.

Cash flow hedges

Changes in the fair value of derivatives designated and effective as cash flow hedges for forecasted transactions or exposures associated with recognized assets or liabilities are initially recorded in other comprehensive income and reclassified into earnings when the hedged transaction affects earnings. Changes in the fair value of the ineffective portion are recognized in current period earnings.

Derivatives not designated as hedges

Changes in the fair value of derivatives that are not designated as hedges under FAS No. 133 are recognized in current period earnings.

Sony formally documents all hedging relationships between the derivatives designated as hedges and hedged items, as well as its risk management objectives and strategies for undertaking various hedging activities. Sony links all hedges that are designated as fair value or cash flow hedges to specific assets or liabilities on the balance sheet or to the specific forecasted transaction. Sony also assesses, both at the inception of the hedge and on an on-going basis, whether the derivatives that are designated as hedges are

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highly effective in offsetting changes in fair value or cash flows of hedged items. When it is determined that a derivative is not highly effective as a hedge, Sony discontinues hedge accounting.

Stock-based compensation -

Sony applies Accounting Principle Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees , and its related interpretations in accounting for its stock-based compensation plans and follows the disclosure-only provisions of FAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure an Amendment of FASB Statement No. 123 . In accordance with APB No. 25, stock-based compensation cost is recognized in income based on the excess, if any, of the quoted market price of the common stock or subsidiary tracking stock of Sony Corporation at the grant date of the award or other measurement date over the stated exercise price of the award. As the exercise prices for Sony s stock-based compensation plans are generally determined based on the prevailing market price shortly before the date of grant, the compensation expense for these plans is not significant. For awards that generate compensation expense as defined under APB No. 25, Sony calculates the amount of compensation expense and recognizes the expense over the vesting period of the award.

The following table reflects the net effect on net income and net income per share allocated to the common stock if Sony had applied the fair value recognition provisions of FAS No. 123, Accounting for Stock-Based Compensation , to its stock-based compensation. See Note 16 for detailed assumptions.

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

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	Year Ended March 31		
	2003	2004	2005
		(Yen)	
Income before cumulative effect of an accounting change allocated to common stock:			
Basic EPS:			
As reported	125.74	98.26	180.96
Pro forma	118.12	91.40	175.92
Diluted EPS:			
As reported	118.21	89.03	162.59
Pro forma	111.20	82.96	158.10
Net income allocated to common stock:			
Basic EPS:			
As reported	125.74	95.97	175.90
Pro forma	118.12	89.11	170.86
Diluted EPS:			
As reported	118.21	87.00	158.07
Pro forma	111.20	80.94	153.58

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

As a result of the adoption of EITF Issue No. 04-8, Sony s diluted EPS of income before cumulative effect of an accounting change and net income for the year ended March 31, 2004 were restated in the above table.

Free distribution of common stock -

On occasion, Sony Corporation may make a free distribution of common stock which is accounted for either by a transfer from additional paid-in capital to the common stock account or with no entry if free shares are distributed from the portion of previously issued shares in the common stock account.

Under the Japanese Commercial Code, a stock dividend can be effected by an appropriation of retained earnings to the common stock account, followed by a free share distribution with respect to the amount appropriated by resolution of the Board of Directors meeting.

Free distribution of common stock is recorded in the consolidated financial statements only when it becomes effective, except for the calculation and presentation of per share amounts.

Stock issue costs -

Stock issue costs are directly charged to retained earnings, net of tax, in the accompanying consolidated financial statements as the Japanese Commercial Code prohibits charging such stock issue costs to capital accounts which is the prevailing practice in the United States of America.

Revenue recognition -

Revenues from electronics, game and music sales are recognized upon delivery which is considered to have occurred when the customer has taken title to the product and the risk and rewards of ownership have

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been substantively transferred. If the sales contract contains a customer acceptance provision, then sales are recognized after customer acceptance occurs or the acceptance provisions lapse.

Revenues from the theatrical exhibition of motion pictures are recognized as the customer exhibits the film. Revenues from the licensing of feature films and television programming are recorded when the material is available for telecast by the licensee and when any restrictions regarding the exhibition or exploitation of the product lapse. Revenues from the sale of home videocassettes and DVDs are recognized upon availability of sale to the public.

Traditional life insurance policies that the life insurance subsidiary writes, most of which are categorized as long-duration contracts, mainly consist of whole life, term life and accident and health insurance contracts. Premiums from these policies are reported as revenue when due from policyholders.

Amounts received as payment for non-traditional contracts such as interest sensitive whole life contracts, single payment endowment contracts, single payment juvenile contracts and other contracts without life contingencies are recognized as deposits to policyholder account balances and included in future insurance policy benefits and other. Revenues from these contracts are comprised of fees earned for administrative and contract-holder services, which are recognized over the period of the contracts, and included in financial service revenue. Property and casualty insurance policies that the non-life insurance subsidiary writes are primarily automotive insurance contracts which are categorized as short-duration contracts. Premiums from these policies are reported as revenue over the period of the contract in proportion to the amount of insurance protection provided.

Accounting for consideration given to a customer or a reseller -

In accordance with EITF Issue No. 01-09, Accounting for Consideration Given by a Vendor to a Customer or Reseller of the Vendor s Products , cash consideration given to a customer or a reseller including payments for buydowns, slotting fees and cooperative advertising programs, is accounted for as a reduction of revenue unless Sony receives an identifiable benefit (goods or services) in exchange for the consideration, can reasonably estimate the fair value of this benefit and receives documentation from the reseller to support the amounts spent. Any payments meeting these criteria are treated as selling, general and administrative expenses. For the years ended March 31, 2003, 2004 and 2005, consideration given to a reseller, primarily for free promotional shipping and cooperative advertising programs included in selling, general and administrative expense totaled 29,135 million yen, 30,338 million yen and 27,946 million yen, respectively.

Cost of sales -

Costs classified as cost of sales relate to the producing and manufacturing of products and include such items as material cost, subcontractor cost, depreciation of fixed assets, personnel expenses, research and development costs, and amortization of film cost related to theatrical and television products.

Research and development costs -

Research and development costs are expensed as incurred.

Selling, general and administrative -

Costs classified as selling expense relate to the promoting and selling of products and include such items as advertising, promotion, shipping, and warranty expenses.

General and administrative expenses include operating items such as officer s salaries, personnel expenses, depreciation of fixed assets, office rental for sales, marketing and administrative divisions, a provision for doubtful accounts and amortization of intangible assets.

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Selling, general and administrative expenses are expensed as incurred.

Financial service expenses -

Financial service expenses include a provision for policy reserves and amortization of deferred insurance acquisition cost, and all other operating costs such as personnel expenses, depreciation of fixed assets, and office rental of subsidiaries in the Financial Services segment.

Advertising costs -

Advertising costs are expensed when the advertisement or commercial appears in the selected media, except for advertising costs for acquiring new insurance policies which are deferred and amortized as part of insurance acquisition costs.

Shipping and handling costs -

The majority of shipping and handling, warehousing and internal transfer costs for finished goods are included in selling, general and administrative expenses. An exception to this is in the Pictures segment where such costs are charged to cost of sales as they are integral part of producing and distributing the film under SOP 00-2, Accounting by Producers or Distributors of Films . All other costs related to Sony s distribution network are included in cost of sales, including inbound freight charges, purchasing and receiving costs, inspection costs and warehousing costs for raw materials and in-process inventory. In addition, amounts paid by customers for shipping and handling costs are included in net sales.

Income taxes -

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Sony records a valuation allowances to reduce deferred tax assets to the amount that management believes is more likely than not to be realized. In assessing the likelihood of realization, Sony considers all currently available evidence for future years, both positive and negative, supplemented by information of historical results for each tax filling unit.

Net income per share -

Sony calculates and presents per share data separately for Sony s common stock and for the subsidiary tracking stock, based on FAS No. 128. The holders of the subsidiary tracking stock have the right to participate in earnings, together with common stockholders. Accordingly, Sony calculates per share data by the two-class method based on FAS No. 128. Under this method, basic net income per share (EPS) for each class of stock is calculated based on the earnings allocated to each class of stock for the applicable period, divided by the weighted-average number of outstanding shares in each class during the applicable period.

The earnings allocated to the subsidiary tracking stock are determined based on the subsidiary tracking stock holders economic interest in the targeted subsidiary s earnings available for dividends. As defined by Sony Corporation s articles of incorporation, the amount distributable to the subsidiary tracking stock holders is based on the declared dividends of the targeted subsidiary, which may only be declared from the amounts available for dividends of the targeted subsidiary. The targeted subsidiary s earnings available for dividends are, as stipulated by the Japanese Commercial Code, not including those of the targeted subsidiary s subsidiaries. If the targeted subsidiary has accumulated losses, a change in accumulated losses is also allocated to the subsidiary tracking stock. The subsidiary tracking stock holders economic interest is calculated as the number of the subsidiary tracking stock outstanding (3,072,000 shares as of March 31, 2005) divided by the

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number of the targeted subsidiary s common stock outstanding (235,520 shares as of March 31, 2005), subject to multiplying by the Standard Ratio (tracking stock: subsidiary s common stock = 1:100, as defined in the articles of incorporation). The earnings allocated to the common stock are calculated by subtracting the earnings allocated to the subsidiary tracking stock from Sony s net income for the period.

The computation of diluted net income per common stock reflects the maximum possible dilution from conversion, exercise, or contingent issuance of securities including the conversion of Co-Cos regardless of whether the conditions to exercise the conversion rights have been met.

There are no potentially dilutive securities for net income per subsidiary tracking stock, as tracking stock shares outstanding are increased upon potential subsidiary tracking stocks being exercised, which results in a proportionate increase in earnings allocated to the subsidiary tracking stock. However, they could have a dilutive effect on net income per common stock, as earnings allocated to the common stock would be decreased.

(3) Recent Pronouncements:

Accounting for Stock-Based Compensation -

In December 2004, the FASB issued FAS No. 123 (revised 2004), Share-Based Payment (FAS No. 123(R)). This statement requires the use of the fair value based method of accounting for employee stock-based compensation and eliminates the alternative use of the intrinsic value method prescribed by APB No. 25. With limited exceptions, FAS No. 123(R) requires that the grant-date fair value of share-based payments to employees be expensed over the period the service is received. Sony has accounted for its employee stock-based compensation in accordance with the provisions prescribed by APB No. 25 and its related interpretations and has disclosed the net effect on net income and net income per share allocated to the common stock if Sony had applied the fair value recognition provisions of FAS No. 123 to stock-based compensation as described above in (2) Significant accounting policies Stock-based compensation. This statement shall be effective for fiscal years beginning after June 15, 2005, with early adoption during the fiscal years beginning after the date this statement is issued encouraged. The options for transition methods prescribed in FAS No. 123(R) include either the modified prospective or the modified retrospective methods. Sony intends to adopt the modified prospective method of transition, which requires that compensation expense be recorded for all unvested stock acquisition rights as the requisite service is rendered beginning with the first period of adoption. Sony is currently evaluating the impact of adopting this new pronouncement. However, Sony expects that the total expenses to be recorded in the future periods will be consistent with the pro forma information above in (2) Significant accounting policies Stock-based compensation.

Inventory Costs -

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

Exchanges of Nonmonetary Assets -

In December 2004, the FASB issued FAS No. 153, Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29 . This statement requires that exchanges of productive assets be accounted for at fair value unless fair value cannot be reasonably determined or the transaction lacks commercial substance. This

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statement shall be effective for nonmonetary asset exchanges occurring in the fiscal periods beginning after June 15, 2005, with early adoption during the fiscal periods beginning after the date this statement is issued encouraged. Sony is currently evaluating the impact of adopting this new pronouncement.

(4) Reclassifications:

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

3. Inventories

Inventories comprise the following:

	March 31	
	2004	2005
	(Yen in millions)	
Finished products	427,877	405,616
Work in process	98,607	93,181
Raw materials, purchased components and supplies	140,023	132,552
	666,507	631,349

4. Film costs

Film costs comprise the following:

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

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

5. Related party transactions

Sony accounts for its investments in affiliated companies over which Sony has significant influence or ownership of 20% or more but less than or equal to 50% under the equity method. In addition, investments in general partnerships in which Sony does not have a controlling interest and limited partnerships are also

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accounted for under the equity method. Such investments include but are not limited to Sony s interest in Sony Ericsson Mobile Communications, AB (50%), SONY BMG Music Entertainment (SONY BMG) (50%), S-LCD Corporation (S-LCD) (50% minus 1 share), ST Liquid Crystal Display Corporation (50%), bit Wallet, Inc (34.6%), STAR CHANNEL, INC. (17.8%), and InterTrust Technologies Corporation (49.5%).

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

	March 31	
	2004	**2005**
	(Yen in millions)	
Current assets	433,154	942,328
Property, plant and equipment	94,130	361,406
Other assets	57,756	250,245
Total assets	585,040	1,553,979
Current liabilities	397,242	876,430
Long-term liabilities	27,639	115,999
Stockholders equity	160,159	561,550
Total liabilities and stockholders equity	585,040	1,553,979
Number of companies at end of the fiscal year	66	56

	Year Ended March 31		
	2003	**2004**	**2005**
	(Yen in millions)		
Sales and revenue	785,697	1,009,005	1,473,273
Gross profit	140,078	231,083	477,796
Net income (loss)	(81,422)	11,323	63,404

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

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

In September 2002, Sony completed the sale of its equity interest in Sony Tektronix Inc., which resulted in a gain of 3,090 million yen.

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

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

Effective July 1, 2003, in accordance with FIN No. 46, Sony consolidated BE-ST Bellevuestrasse Development GmbH & Co. First Real Estate KG, Berlin (BE-ST). As a result, BE-ST is no longer accounted for under the equity method (Note 22). The financial position and operating results of BE-ST as of and for the years ended March 31, 2004 and 2005 are not included in the above summarized combined financial information.

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

S-LCD, a joint venture with Samsung Electronics Co., LTD focused on manufacturing amorphous TFT panel, was established in April 2004 as a joint venture in which Sony has an ownership interest of 50% minus 1 share. Sony invested 100,073 million yen in S-LCD during the year ended March 31, 2005.

As of August 1, 2004, Sony combined its recorded music business, except for the operations of its recorded music business in Japan, with the recorded music business of Bertelsmann AG in a joint venture. The newly formed company, known as SONY BMG, is 50% owned by each parent company. As a result, the results of the recorded music business, except for the recorded music business in Japan, are no longer consolidated but are accounted for under the equity method.

On April 8, 2005, a consortium led by Sony Corporation of America (SCA) and its equity partners, Providence Equity Partners, Texas Pacific Group, Comcast Corporation and DLJ Merchant Banking Partners, completed the acquisition of Metro-Goldwyn-Mayer Inc. (MGM). Under the terms of the acquisition agreement, the aforementioned investor group acquired MGM for $12.00 in cash per MGM share, for a total purchase price of approximately $5.0 billion. As part of this transaction, Sony Pictures Entertainment (SPE) will co-finance and produce new motion pictures with MGM as well as distribute MGM s existing film and television contents through SPE s global distribution channels. MGM will continue to operate under the Metro-Goldwyn-Mayer name as a private company headquartered in Los Angeles. As part of the acquisition, SCA invested $257 million for 20% of the total equity capital. However, based on the percentage of common stock owned, Sony will record 45% of MGM s net income (loss) as equity in net income of affiliated companies.

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

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

	March 31	
	2004	2005
	(Yen in millions)	
Accounts receivable, trade	62,359	50,062
Advances	561	16,756
Accounts payable, trade	13,547	15,225

	Year Ended March 31		
	2003	2004	2005
	(Yen in millions)		
Sales	161,983	258,454	256,799
Purchases	102,735	106,100	101,976

As of April 1, 2004, Sony Corporation made Sony Computer Entertainment Inc. (SCE) a wholly-owned subsidiary through a stock for stock exchange pursuant to the provision of Article 358 of the Japanese Commercial Code which does not require the approval of the General Meeting of Shareholders. The stock for stock exchange ratio was determined based on the estimated equity values of SCE and Sony on a consolidated basis. Through the stock for stock exchange, Sony Corporation provided 1,000,000 shares of its common stock to an Executive Deputy President, Corporate Executive Officer of Sony Corporation who had owned 100 shares of SCE s common stock. This transaction did not have a material impact on Sony s results of operations and financial position for the year ended March 31, 2005.

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

6. *Accounts receivable securitization programs*

In the United States of America, Sony has set up an accounts receivable securitization program whereby Sony can sell interests in up to 53,500 million yen of eligible trade accounts receivable, as defined. Through this program, Sony can securitize and sell a percentage of an undivided interest in that pool of receivables to several multi-seller commercial paper conduits owned and operated by a bank. Sony can sell receivables in which the agreed upon original due dates are no more than 90 days after the invoice dates. The value assigned to undivided interests retained in securitized trade receivables is based on the relative fair values of the interest retained and sold in the securitization. Sony has assumed that the fair value of the retained interest is equivalent to its carrying value as the receivables are short-term in nature, high quality and have appropriate reserves for bad debt incidence. These securitization transactions are accounted for as a sale in accordance with FAS No. 140, Accounting for Transfers and Servicing of

Financial Assets and Extinguishments of Liabilities , because Sony has relinquished control of the receivables. During the period from April 2004 to January 2005, Sony sold a total of 80,250 million yen of accounts receivable under this program. There were no outstanding amounts due at March 31, 2005 relating to the existing undivided interests in the pool of receivables that had been sold. Losses from these transactions were insignificant. This program was terminated in May 2005.

In Japan, Sony set up several accounts receivable sales programs whereby Sony can sell up to 47,500 million yen of eligible trade accounts receivable. Through these programs, Sony can sell receivables to special purpose entities owned and operated by banks. Sony can sell receivables in which the agreed upon original due dates are no more than 190 days after the sales of receivables. These transactions are accounted

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for as sales in accordance with FAS No. 140, because Sony has relinquished control of the receivables. The initial sale of the receivables was in March 2005 in which Sony sold a total of 10,041 million yen. Losses from these transactions were insignificant. Although Sony continues servicing the sold receivables, no servicing liabilities are recorded because costs for collection of the sold receivables are insignificant.

7. *Marketable securities and securities investments and other*

Marketable securities and securities investments and other include debt and equity securities of which the aggregate cost, gross unrealized gains and losses and fair value pertaining to available-for-sale securities and held-to-maturity securities are as follows:

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

At March 31, 2005, debt securities classified as available-for-sale securities and held-to-maturity securities mainly consist of Japanese government and municipal bonds and corporate debt securities with maturities of one to ten years.

Proceeds from sales of available-for-sale securities were 215,554 million yen, 397,817 million yen and 613,035 million yen for the years ended March 31, 2003, 2004 and 2005, respectively. On those sales, gross realized gains computed on the average cost basis were 3,570 million yen, 9,525 million yen and 24,080 million yen and gross realized losses were 3,125 million yen, 1,906 million yen and 5,940 million yen, respectively.

Marketable securities classified as trading securities at March 31, 2004 and 2005 were 131,044 million yen and 315,946 million yen, respectively, which consist of debt and equity securities including short-term investments in money market funds.

In the ordinary course of business, Sony maintains long-term investment securities, included in securities investments and other, issued by a number of non-public companies. The aggregate carrying amounts of the investments in non-public companies at March 31, 2004 and 2005, were 51,367 million yen and 48,877 million yen, respectively. A non-public equity investment is valued at cost as fair value is not readily determinable. If the value is estimated to have declined and such decline is judged to be other than temporary, the impairment of the investment is recognized and the carrying value is reduced to its fair value.

Securities investments and other as of March 31, 2004 also included separate account assets (Note 10) in the life insurance business, which were carried at fair value and excluded from the above table as gains or losses accrue directly to policyholders. As a result of the adoption of SOP 03-1, the separate account assets, which are defined by insurance business law in Japan and were previously included in Securities investments and other on the consolidated balance sheet, were excluded from the category of separate accounts under the provision of SOP 03-1. Accordingly, the assets previously treated as separate account assets are now treated within general account assets. On April 1, 2004, assets of 164,461 million yen were reclassified from Securities investments and other to each respective account by nature including Marketable securities

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and Cash and cash equivalents . Of the total, 154,528 million yen was reclassified to Marketable securities .

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

The following table presents the gross unrealized losses on, and fair value of, Sony s investment securities with unrealized losses, aggregated by investment category and the length of time that individual investment securities have been in a continuous unrealized loss position, at March 31, 2005.

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

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

At March 31, 2005, Sony determined that the decline in value for securities with unrealized losses shown in the above table is not other-than-temporary in nature.

8. *Leased assets*

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

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

	March 31	
Class of property	2004	2005
	(Yen in millions)	

Land	174	181
Buildings	12,421	11,089
Machinery, equipment and others	36,907	33,747
Accumulated depreciation	(19,385)	(18,509)
	30,117	26,508

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SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following is a schedule by year of the future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of March 31, 2005:

	Yen in millions
Year ending March 31:	
2006	15,211
2007	11,062
2008	8,895
2009	10,873
2010	3,001
Later years	5,428
Total minimum lease payments	54,470
Less Amount representing interest	14,169
Present value of net minimum lease payments	40,301
Less Current obligations	11,713
Long-term capital lease obligations	28,588

Minimum lease payments have not been reduced by minimum sublease income of 11,480 million yen due in the future under noncancelable subleases.

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

	Yen in millions
Year ending March 31:	
2006	38,182
2007	30,568
2008	22,993
2009	14,060
2010	10,496
Later years	53,652
Total minimum future rentals	169,951

9. *Goodwill and intangible assets*

Intangible assets acquired during the year ended March 31, 2005 totaled 22,844 million yen, which are subject to amortization and primarily consist of acquired patent rights of 6,673 million yen and software to be sold, leased or otherwise marketed of 11,546 million yen. The weighted average amortization period for acquired patent rights and software to be sold, leased or otherwise marketed is 8 years and 3 years, respectively.

SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Intangible assets subject to amortization comprise the following:

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

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

	Yen in millions
Year ending March 31,	
2006	22,650
2007	18,287
2008	12,202
2009	10,623
2010	8,874

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

	March 31	
	2004	2005
	(Yen in millions)	
Trademarks	57,384	57,195
Distribution agreement	18,834	18,848
	76,218	76,043

In addition to the amortizable and indefinite-lived intangible assets shown in the above tables, intangible assets at March 31, 2004 and 2005 also include unrecognized prior service costs totaling 21,376 million yen and 41 million yen, respectively, which were recorded under FAS No. 87 as discussed in Note 14.

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

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

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

During the year ended March 31, 2004, Sony performed the annual impairment test for goodwill and recorded an impairment loss of 6,049 million 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.

As discussed in Notes 5 and 24, as of August 1, 2004, Sony and Bertelsmann AG combined their recorded music business in a joint venture. In connection with the establishment of the joint venture, assets contributed by Sony included 15,626 million yen of goodwill. In addition, the non-Japan based disc manufacturing and physical distribution businesses, formerly included within the Music segment, have been reclassified to the Electronics segment and accordingly, Sony reallocated 12,329 million yen of goodwill relating to the non-Japan based disc manufacturing and physical distribution business from the Music segment to the Electronics segment.

10. *Insurance-related accounts*

Sony s life and non-life insurance subsidiaries in Japan maintain their accounting records as described in Note 2 in accordance with the accounting principles and practices generally accepted in Japan, which vary in some respects from U.S. GAAP.

Those differences are mainly that insurance acquisition costs for life and non-life insurance are charged to income when incurred in Japan whereas in the United States of America those costs are deferred and amortized generally over the premium-paying period of the related insurance policies, and that future policy benefits for life insurance calculated locally under the authorization of the supervisory administrative agencies are comprehensively adjusted to a net level premium method with certain adjustments of actuarial assumptions for U.S. GAAP purposes. For purposes of preparing the consolidated financial statements, appropriate adjustments have been made to reflect such items in accordance with U.S. GAAP.

The amounts of statutory net equity of the subsidiaries as of March 31, 2004 and 2005 were 146,540 million yen and 153,228 million yen, respectively.

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(1) Insurance policies:

Life insurance policies that the life insurance subsidiary writes, most of which are categorized as long-duration contracts, mainly consist of whole life, term life and accident and health insurance contracts. The life insurance revenues for the years ended March 31, 2003, 2004 and 2005 were 450,363 million yen, 437,835 million yen and 426,774 million yen, respectively. Property and casualty insurance policies that the non-life insurance subsidiary writes are primarily automotive insurance contracts which are categorized as short-duration contracts. The non-life insurance revenues for the years ended March 31, 2003, 2004 and 2005 were 21,269 million yen, 28,371 million yen and 35,454 million yen, respectively.

(2) Deferred insurance acquisition costs:

Insurance acquisition costs, including such items as commission, medical examination and inspection report fees, that vary with and are primarily related to acquiring new insurance policies are deferred as long as they are recoverable. The deferred insurance acquisition costs for traditional life insurance contracts are amortized over the premium-paying period of the related insurance policies using assumptions consistent with those used in computing policy reserves. The deferred insurance acquisition costs for non-traditional life insurance contracts are amortized over the expected life in proportion to the estimated gross profits. Amortization charged to income for the years ended March 31, 2003, 2004 and 2005 amounted to 44,578 million yen, 50,492 million yen and 47,120 million yen, respectively.

(3) Future insurance policy benefits:

Liabilities for future policy benefits are established in amounts adequate to meet the estimated future obligations of policies in force. These liabilities are computed by the net level premium method based upon estimates as to future investment yield, morbidity, mortality and withdrawals. Future policy benefits are computed using interest rates ranging from approximately 1.30% to 5.20%. Mortality, morbidity and withdrawal assumptions for all policies are based on either the subsidiary s own experience or various actuarial tables. At March 31, 2004 and 2005, future insurance policy benefits amounted to 1,605,178 million yen and 1,782,850 million yen, respectively.

(4) Separate account assets:

Separate account assets are funds on which investment income and gains or losses accrue directly to policyholders. Separate account assets are legally segregated. They are not subject to the claims that may arise out of any other business of a life insurance subsidiary. As described in Note 2, the AcSEC issued SOP 03-1, Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts . As a result of the adoption of SOP 03-1 on April 1, 2004, the separate account assets, which are defined by insurance business law in Japan and were previously included in Securities investments and other (Note 7) in the consolidated balance sheet, were excluded from the category of separate accounts under the provision of SOP 03-1. Accordingly, the assets previously treated as separate account assets are now treated within general account assets. The related liabilities are treated as policyholders account and included in future insurance policy benefits and other in the consolidated balance sheet. Fees earned for administrative and contract-holder services performed for the separate accounts are recognized as financial service revenue.

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SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES
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11. *Short-term borrowings and long-term debt*

Short-term borrowings comprise the following:

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

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

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SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Long-term debt comprises the following:

	March 31	
	2004	2005
	(Yen in millions)	
Secured loans, representing obligations to banks:		
Due 2004 to 2008 with interest ranging from 2.20% to 3.73% per annum	58,786	
Due 2005 to 2008 with interest of 2.20% per annum		1,122
Unsecured loans, representing obligations principally to banks:		
Due 2004 to 2017 with interest ranging from 1.77% to 5.89% per annum	77,646	
Due 2005 to 2017 with interest ranging from 0.23% to 5.89% per annum		113,436
Medium-term notes of consolidated subsidiaries:		
Due 2004 to 2006 with interest ranging from 1.09% to 4.95% per annum	60,537	
Due 2006 with interest ranging from 2.78% to 4.95% per annum		58,755
Unsecured 1.4% convertible bonds, due 2005, convertible at 3,995.5 yen for one common share, redeemable before due date	287,753	
Unsecured zero coupon convertible bonds, due 2008, convertible currently at 5,605 yen for one common share, redeemable before due date	250,000	250,000
Unsecured 0.03% bonds, due 2004 with detachable warrants, net of unamortized discount	3,981	
Unsecured 0.1% bonds, due 2005 with detachable warrants, net of unamortized discount	3,924	3,981
Unsecured 1.55% bonds, due 2006 with detachable warrants	12,000	12,000
Unsecured 0.9% bonds, due 2007 with detachable warrants	7,300	7,300
Unsecured 0.9% bonds, due 2007 with detachable warrants of subsidiary tracking stock	150	150
Unsecured 1.42% bonds, due 2005, net of unamortized discount	99,994	99,998
Unsecured 0.64% bonds, due 2006, net of unamortized discount	99,994	99,996
Unsecured 2.04% bonds, due 2010, net of unamortized discount	49,981	49,984
Unsecured 1.52% bonds, due 2011, net of unamortized discount	49,996	49,997
Unsecured 2.0% bonds, due 2005	15,000	15,000

Unsecured 1.99% bonds, due 2007	15,000	15,000
Unsecured 2.35% bonds, due 2010	4,900	4,900
Capital lease obligations:		
Due 2004 to 2014 with interest ranging from 2.15% to 30.00% per annum	42,689	
Due 2005 to 2019 with interest ranging from 1.55% to 30.00% per annum		40,301
Guarantee deposits received	21,775	23,942
	1,161,406	845,862
Less Portion due within one year	383,757	166,870
	777,649	678,992

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

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

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

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

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

Year ending March 31	Yen in millions
2006	166,870
2007	178,117
2008	32,059
2009	282,430
2010	2,909

At March 31, 2005, Sony had unused committed lines of credit amounting to 863,956 million yen and can generally borrow up to 90 days from the banks with whom Sony has committed line contracts. Furthermore, Sony has Commercial Paper Programs, the size of which was 1,251,450 million yen. There was no commercial paper outstanding at March 31, 2005. Under those programs, Sony can issue commercial paper for the period generally not in excess of 270 days up to the size of the programs. In addition, Sony has Medium Term Notes programs, the size of which was 536,750 million yen. At March 31, 2005, the total outstanding balance of Medium Term Notes was 58,755 million yen.

12. *Deposits from customers in the banking business*

All deposits from customers in the banking business are interest bearing deposits and are owned by a Japanese bank subsidiary which was established as an Online Internet bank for individuals. At March 31, 2004 and 2005, the balance of time deposits issued in amounts of 10 million yen or more were 55,164 million yen and 67,387 million yen, respectively.

At March 31, 2005, aggregate amounts of annual maturities of time deposits with a remaining term of more than one year include 25,697 million yen and 23,910 million yen for the years ending March 31, 2007 and 2008, respectively. There are no deposits having a maturity date after March 31, 2008.

13. ***Financial instruments***

(1) Derivative instruments and hedging activities:

Sony has certain financial instruments including financial assets and liabilities incurred in the normal course of business. Such financial instruments are exposed to market risk arising from the changes of foreign currency exchange rates and interest rates. In applying a consistent risk management strategy for the purpose

SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

of reducing such risk, Sony uses derivative financial instruments, which include foreign exchange forward contracts, foreign currency option contracts, and interest rate and currency swap agreements. Foreign exchange forward contracts and foreign currency option contracts are utilized primarily to limit the exposure affected by changes in foreign currency exchange rates on cash flows generated by anticipated intercompany transactions and intercompany accounts receivable and payable denominated in foreign currencies. Interest rate and currency swap agreements are utilized primarily to lower funding costs, to diversify sources of funding and to limit Sony s exposure associated with underlying debt instruments and available-for-sale debt securities resulting from adverse fluctuations in interest rates, foreign currency exchange rates and changes in the fair value. These instruments are executed with creditworthy financial institutions, and virtually all foreign currency contracts are denominated in U.S. dollars, euros and other currencies of major countries. Although Sony may be exposed to losses in the event of nonperformance by counterparties or unfavorable interest and currency rate movements, it does not anticipate significant losses due to the nature of Sony s counterparties or the hedging arrangements. These derivatives generally mature or expire within 5 months after the balance sheet date. Sony does not use these derivative financial instruments for trading or speculative purposes except for certain derivatives utilized for portfolio investments such as interest rate swap agreements and interest rate future contracts in the Financial Services segment. These derivative transactions utilized for portfolio investments in the Financial Services segment are executed within a certain limit in accordance with an internal risk management policy.

Derivative financial instruments held by Sony are classified and accounted for as described below pursuant to FAS No. 133.

Fair value hedges

The derivatives designated as fair value hedges include interest rate and currency swap agreements.

Both the derivatives designated as fair value hedges and hedged items are reflected at fair value in the consolidated balance sheet. Changes in the fair value of the derivatives designated as fair value hedges as well as offsetting changes in the carrying value of the underlying hedged items are recognized in income.

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

Cash flow hedges

The derivatives designated as cash flow hedges include foreign exchange forward contracts, foreign currency option contracts and interest rate and currency swap agreements.

Changes in the fair value of derivatives designated as cash flow hedges are initially recorded in other comprehensive income and reclassified into earnings when the hedged transaction affects earnings. For the years ended March 31, 2003 and 2004, these cash flow hedges were fully effective. For the year ended March 31, 2005, the amount of ineffectiveness of these cash flow hedges that was reflected in earnings was not material. In addition, there were no amounts excluded from the assessment of hedge effectiveness of cash flow hedges. At March 31, 2005, amounts related to derivatives qualifying as cash flow hedges amounted to a net reduction of equity of 2,490 million yen. Within the next twelve months, 1,615 million yen is expected to be reclassified from equity into earnings as loss. For the year ended March 31, 2005, there were no forecasted transactions that failed to occur which resulted in the discontinuance of cash flow hedges.

SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES
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Derivatives not designated as hedges

The derivatives not designated as hedges under FAS No. 133 include foreign exchange forward contracts, foreign currency option contracts, interest rate and currency swap agreements, convertible rights included in convertible bonds and other. Changes in the fair value of derivatives not designated as hedges are recognized in income.

A description of the purpose and classification of the derivative financial instruments held by Sony is as follows:

Foreign exchange forward contracts and foreign currency option contracts

Sony enters into foreign exchange forward contracts and purchased and written foreign currency option contracts primarily to fix the cash flows from intercompany accounts receivable and payable and forecasted transactions denominated in functional currencies (Japanese yen, U.S. dollars and euros) of Sony s major operating units. The majority of written foreign currency option contracts are a part of range forward contract arrangements and expire in the same month with the corresponding purchased foreign currency option contracts.

Sony also enters into foreign exchange forward contracts, which effectively fix the cash flows from foreign currency denominated debt. Accordingly, these derivatives have been designated as cash flow hedges in accordance with FAS No. 133.

Foreign exchange forward contracts and foreign currency option contracts that do not qualify as hedges are marked-to-market with changes in value recognized in other income and expenses.

Interest rate and currency swap agreements

Sony enters into interest rate and currency swap agreements, which are used for reducing the risk arising from the changes in the fair value of fixed rate debt and available-for-sale debt securities. For example, Sony enters into interest rate and currency swap agreements, which effectively swap foreign currency denominated fixed rate debt for functional currency denominated variable rate debt. These derivatives are considered to be a hedge against changes in the fair value of Sony s foreign denominated fixed-rate obligations. Accordingly, these derivatives have been designated as fair value hedges in accordance with FAS No. 133.

Sony also enters into interest rate and currency swap agreements that are used for reducing the risk arising from the changes in anticipated cash flow of variable rate debt and foreign currency denominated debt. For example, Sony enters into interest rate and currency swap agreements, which effectively swap foreign currency denominated variable rate debt for functional currency denominated fixed rate debt. These derivatives are considered to be a hedge against changes in the anticipated cash flow of Sony s foreign denominated variable rate obligations. Accordingly, these derivatives have been designated as cash flow hedges in accordance with FAS No. 133.

Certain subsidiaries in the Financial Services segment have interest rate swap agreements as part of portfolio investments, which are marked-to-market with changes in value recognized in financial service revenue.

Any other interest rate and currency swap agreements that do not qualify as hedges, which are used for reducing the risk arising from changes of variable rate and foreign currency dominated intercompany debt, are marked-to-market with changes in value recognized in other income and expenses.

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Interest rate future contracts

Certain subsidiaries in the Financial Services segment have interest rate future contracts as part of portfolio investments, which are marked-to-market with changes in value recognized in financial service revenue.

Embedded derivatives

Changes in the fair value of embedded derivatives that must be separated from the host contracts and accounted for as derivative instruments under FAS No. 133 are recognized in income. For example, the convertible rights included in convertible bonds held by Sony s life insurance subsidiary, which are classified as available-for-sale debt securities, are considered embedded derivatives and are marked-to-market with changes in value recognized in financial service revenue.

(2) Fair value of financial instruments:

The estimated fair values of Sony s financial instruments are summarized as follows. The following summary excludes cash and cash equivalents, time deposits, notes and accounts receivable, trade, short-term borrowings, notes and accounts payable, trade and deposits from customers in the banking business that are carried at amounts which approximate fair value. The summary also excludes debt and equity securities which are disclosed in Note 7.

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

The following are explanatory notes regarding the estimation method of fair values in the above table.

Long-term debt including the current portion

The fair values of long-term debt, including the current portion, were estimated based on either the market value or the discounted amounts of future cash flows using Sony s current incremental debt rates for similar liabilities.

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SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Derivative financial instruments

The fair values of foreign exchange forward contracts and foreign currency option contracts were estimated based on market quotations. The fair values of interest rate and currency swap agreements were estimated based on the discounted amounts of future net cash flows. The fair values of convertible rights, which were a majority of embedded derivatives, were estimated based on the market price of stock which will be acquired by the exercise of these rights.

14. *Pension and severance plans*

Upon terminating employment, employees of Sony Corporation and its subsidiaries in Japan are entitled, under most circumstances, to lump-sum indemnities or pension payments as described below. For employees voluntarily retiring, payments are determined based on current rates of pay and lengths of service. In calculating the payments for employees involuntarily retiring, including employees retiring due to meeting mandatory retirement age requirements, Sony may grant additional benefits.

In July, 2004, Sony Corporation and certain of its subsidiaries amended their pension plans and introduced a point-based plan under which a point is added every year reflecting the individual employee s performance over that year. Under the point-based plan the amount of payment is determined based on sum of cumulative points from past services and interest points earned on the cumulative points regardless of whether or not the employee is voluntarily retiring. As a result of the plan amendment, the projected benefit obligation was decreased by 120,873 million yen.

Sony Corporation and most of its subsidiaries in Japan have contributory funded defined benefit pension plans, which are pursuant to the Japanese Welfare Pension Insurance Law. The contributory pension plans cover a substitutional portion of the governmental welfare pension program, under which the contributions are made by the companies and their employees, and an additional portion representing the substituted noncontributory pension plans. Under the contributory pension plans, the defined benefits representing the noncontributory portion of the plans, in general, cover 65% of the indemnities under existing regulations to employees. The remaining indemnities are covered by severance payments by the companies. The pension benefits are payable at the option of the retiring employee either in a lump-sum amount or monthly pension payments. Contributions to the plans are funded through several financial institutions in accordance with the applicable laws and regulations.

In June 2001, the Japanese Government issued the Defined Benefit Corporate Pension Plan Act which permits each employer and employees pension fund plan to separate the substitutional portion from its employees pension fund and transfer the obligation and related assets to the government. In July, 2004, in accordance with the law, the Japanese Government approved applications submitted by Sony Corporation and most of its subsidiaries in Japan for an exemption from the obligation to pay benefits for future employee services related to the substitutional portion of the governmental welfare pension program. In January 2005, the government also approved applications for an exemption from the obligation to pay benefits for past employee services related to the substitutional portion. As of March 31, 2005 the benefit obligation for past employee services related to the substitutional portion and the related government-specified portion of the plan assets have not been transferred to the government.

EITF Issue No. 03-2, Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities , requires employers to account for the entire separation process of a substitutional portion from an entire plan upon completion of the transfer of the substitutional portion of the benefit obligation and related plan assets to the government as the culmination of a series of steps in a single settlement transaction. In accordance with EITF Issue No. 03-2, no accounting for the transfer was recorded for the year ended March 31, 2005.

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SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES
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Many of foreign subsidiaries have defined benefit pension plans or severance indemnity plans, which substantially cover all of their employees. Under such plans, the related cost of benefits is currently funded or accrued. Benefits awarded under these plans are based primarily on the current rate of pay and length of service.

Sony uses a measurement date of March 31 for substantially all of its pension and severance plans.

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

Japanese plans:

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

Foreign plans:

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

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The changes in benefit obligation and plan assets, funded status and composition of amounts recognized in the consolidated balance sheets were as follows:

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

In connection with the establishment of the SONY BMG joint venture with Bertelsmann AG as discussed in Note 5, Sony transferred 32,140 million yen of its benefit obligation and 12,666 million yen of its plan assets which were included in Sony s foreign plans to the joint venture.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Japanese plans		Foreign plans	
	March 31		March 31	
	2004	2005	2004	2005
	(Yen in millions)		(Yen in millions)	
Funded status	(480,447)	(367,275)	(70,176)	(61,573)
Unrecognized actuarial loss	328,467	322,237	27,550	37,383
Unrecognized net transition asset	(479)	(104)	211	7
Unrecognized prior service cost	(20,784)	(134,440)	(748)	(501)
Net amount recognized	(173,243)	(179,582)	(43,163)	(24,684)
Amounts recognized in the consolidated balance sheet consist of:				
Prepaid benefit cost		1,795	2,609	1,351
Accrued pension and severance costs, including current portion	(322,677)	(309,957)	(61,452)	(42,934)
Intangibles	21,263		113	41
Accumulated other comprehensive income	128,171	128,580	15,567	16,858
Net amount recognized	(173,243)	(179,582)	(43,163)	(24,684)

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

	Japanese plans		Foreign plans	
	March 31		March 31	
	2004	2005	2004	2005
	(Yen in millions)		(Yen in millions)	
Accumulated benefit obligation	830,898	835,420	129,879	121,176

The projected benefit obligations, the accumulated benefit obligations and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were as follows:

	Japanese plans		Foreign plans	
	March 31		March 31	
	2004	2005	2004	2005

	(Yen in millions)		(Yen in millions)	
Projected benefit obligations	991,030	898,985	135,459	132,556
Accumulated benefit obligations	830,362	835,420	113,020	115,147
Fair value of plan assets	512,720	533,926	74,167	86,070

Weighted-average assumptions used to determine benefit obligations as of March 31, 2003, 2004 and 2005 were as follows:

Japanese plans:

	March 31		
	2003	**2004**	**2005**
Discount rate	1.9%	2.4%	2.3%
Rate of compensation increase	3.0	3.0	3.3

SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Foreign plans:

	March 31		
	2003	2004	2005
Discount rate	6.3%	5.8%	5.5%
Rate of compensation increase	4.1	4.0	3.3

Weighted-average assumptions used to determine net pension and severance costs for the years ended March 31, 2003, 2004 and 2005 were as follows:

Japanese plans:

	Year Ended March 31		
	2003	2004	2005
Discount rate	2.4%	1.9%	2.4%
Expected return on plan assets	4.0	4.0	3.2
Rate of compensation increase	3.0	3.0	3.3

Foreign plans:

	Year Ended March 31		
	2003	2004	2005
Discount rate	6.6%	6.3%	5.8%
Expected return on plan assets	8.1	8.3	7.8
Rate of compensation increase	4.5	4.1	4.0

As required under FAS No. 87, the assumptions are reviewed in accordance with changes in circumstances.

To determine the expected long-term rate of return on pension plan assets, Sony considers the current and expected asset allocations, as well as historical and expected long-term rate of returns on various categories of plan assets.

Following FAS132(R), the weighted-average rate of compensation increase is calculated based on the pay-related plans only. The point-based plan discussed above is excluded from the calculation because payments made under the plan are not based on employee compensation.

Weighted-average pension plan asset allocations based on the fair value of such assets as of March 31, 2004 and 2005 were as follows:

Japanese plans:

	March 31,	
	2004	2005
Equity securities	39.0%	28.0%

Debt securities	14.7	34.7
Cash	42.7	33.7
Other	3.6	3.6
Total	100%	100%

SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES
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Foreign plans:

	March 31,	
	2004	**2005**
Equity securities	63.2%	68.3%
Debt securities	26.6	23.4
Real estate	3.2	4.0
Other	7.0	4.3
Total	100%	100%

For the pension plans of Sony Corporation and most of its subsidiaries, Sony s asset investment policy is set so as to compensate the appropriate level for employee s benefit over the long term.

For the pension plans of Sony Corporation and most of its subsidiaries in Japan, the target allocation as of March 31, 2005, is, as a result of our Asset Liability management, 34% of public equity, 56% of fixed income securities and 10% of other. When determining an appropriate asset allocation, diversification among assets is duly considered. The actual asset allocation as of March 31, 2005 for Sony s principal pension plans did not meet the aforementioned target allocation as the Sony Employees Pension Fund tentatively held cash to be paid to the Japanese government in relation to the transfer of the substitutional portion of the benefit obligation and the related government-specified portion of the plan assets discussed above. Such transfer is expected to occur in the year ending March 31, 2006.

Sony makes contributions to its contributory funded defined benefit pension plans as required by government regulation or as deemed appropriate by management after considering the fair value of plan assets, expected return on plan assets and the present value of benefit obligations. Sony expects to contribute approximately 35 billion yen to the Japanese plans and approximately 6 billion yen to the foreign plans for the year ending March 31, 2006.

The future benefit payments are expected as follows:

	Japanese plans	**Foreign plans**
	(Yen in millions)	**(Yen in millions)**
Year ending March 31,		
2006	18,281	5,625
2007	19,734	5,977
2008	22,075	6,308
2009	24,600	6,860
2010	29,475	7,912
2011 2015	181,527	51,919

15. *Stockholders equity*

(1) *Subsidiary tracking stock:*

On June 20, 2001, Sony Corporation issued shares of subsidiary tracking stock in Japan, the economic value of which is intended to be linked to the economic value of Sony Communication Network Corporation (SCN), a directly and indirectly wholly owned subsidiary of Sony Corporation which is engaged in Internet-related services. The subsidiary tracking stock holders have no direct rights in the equity or assets of SCN or the assets of Sony Corporation. Except as summarized below, the shares of subsidiary tracking stock have the same rights and characteristics as those of shares of common stock.

SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES
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The dividend on the shares of this series of subsidiary tracking stock is payable only when the Board of Directors of SCN has resolved to pay to its common stock holders a dividend in an amount per share of the subsidiary tracking stock equal to the amount of SCN s dividend per share of its common stock multiplied by the Standard Ratio (as defined in the articles of incorporation), subject to statutory restriction on Sony Corporation s ability to pay dividends on its shares of capital stock and the maximum dividend amount (as defined in the articles of incorporation). If the amount of dividends paid to the subsidiary tracking stock holders is less than the amount, which should have been paid pursuant to the formula set forth above due to the statutory restriction referred to above or for any other reason, such shortfall will be accumulated and such cumulative amount will be paid to the subsidiary tracking stock holders for subsequent fiscal years. Any such dividend on the subsidiary tracking stock is payable in priority to the payment of dividends to the common stock holders. However, the subsidiary tracking stockholders have no right to participate in the dividends to common stock holders. Furthermore, even if the Board of Directors of SCN does not take a resolution for the payment of dividends to SCN s common stock holders, Sony Corporation may decide to pay dividends to its common stock holders.

The subsidiary tracking stockholders have the same voting rights as those of the common stock holders and, thus, are entitled to participate and vote at any General Meeting of Shareholders in the same way as the common stock holders. In addition, as each series of subsidiary tracking stock is a separate class of stock different from common stock, if any resolution of the General Meeting of Shareholders would adversely affect the rights of the shareholders of a particular class of subsidiary tracking stock, the shareholders of each class of subsidiary tracking stock will have the right to approve or disapprove such resolution by a special resolution of the meeting of shareholders of that class of subsidiary tracking stock.

In the event of distribution of residual assets to the shareholders of Sony Corporation where, as long as such assets include shares of common stock of SCN, the number of shares of SCN common stock obtained by multiplying the number of shares of the subsidiary tracking stock held by each holder by the Standard Ratio or the net proceeds from the sale of the shares of SCN common stock so to be distributed will be distributed to the holders of the subsidiary tracking stock.

The shares of subsidiary tracking stock may be subject to repurchase and retirement in the same manner and under the same restriction as the shares of common stock. In addition, at any time after the passage of three years from the date of the initial issuance of shares of a series of subsidiary tracking stock, it may retire the entire amount of all outstanding shares of that series of subsidiary tracking stock upon paying to the shareholders thereof an amount equal to the current market price of the subsidiary tracking stock out of Sony Corporation s retained earnings available for dividend payments. Sony Corporation may also retire the shares of a series of subsidiary tracking stock in their entirety pursuant to the procedures prescribed by the Japanese Commercial Code for the reduction of capital upon payment to the subsidiary tracking stock holders an amount equal to the market value thereof as set forth above.

At any time after the passage of three years from the date of the initial issuance of shares of a series of subsidiary tracking stock, it may convert the entire amount of all outstanding shares of the subsidiary tracking stock into the shares of Sony Corporation s common stock at the rate of the multiple of 1.1 of the market value (as defined in the articles of incorporation) of shares of the subsidiary tracking stock divided by the market value (as similarly defined) of the shares of Sony Corporation s common stock.

If any events (as defined in the articles of incorporation) occur, the entire amount of all outstanding shares of the subsidiary tracking stock will be either retired or converted into shares of Sony Corporation s common stock at the price or rate set forth above. On April 26, 2005, Sony Corporation decided at the Board of Directors to go through procedures for the initial public offering of SCN. If the listing of SCN common stock is approved by the stock exchange, subject to required procedures, all of the subsidiary tracking stock will be compulsorily terminated pursuant to the articles of incorporation. The method of such termination will

SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

be one of the following: 1) compulsory retirement in cash, 2) compulsory conversion to common stock of Sony Corporation, or 3) compulsory exchange with common stock of SCN.

The number of shares of the subsidiary tracking stock issued and outstanding at March 31, 2005 was 3,072,000. At March 31, 2005, 136,454 shares of the subsidiary tracking stock would be issued upon exercise of warrants and stock acquisition rights outstanding.

(2) Common stock:

Changes in the number of shares of common stock issued and outstanding during the years ended March 31, 2003, 2004 and 2005 have resulted from the following:

	Number of shares
Balance at March 31, 2002	919,744,355
Conversion of convertible bonds	138,330
Stock issued under exchange offering	2,502,491
Balance at March 31, 2003	922,385,176
Conversion of convertible bonds	2,944,800
Stock issued under exchange offering	1,088,304
Balance at March 31, 2004	926,418,280
Conversion of convertible bonds	70,765,533
Exercise of stock acquisition rights	27,400
Balance at March 31, 2005	997,211,213

At March 31, 2005, 55,609,085 shares of common stock would be issued upon conversion or exercise of all convertible bonds, warrants and stock acquisition rights outstanding.

On October 1, 2002, Sony Corporation implemented a share exchange as a result of which Aiwa Co., Ltd. became a wholly-owned subsidiary. As a result of this share exchange, Sony Corporation issued 2,502,491 new shares, the minority interest in Aiwa Co., Ltd. was eliminated from the balance sheet, and additional paid-in capital increased 15,791 million yen.

On May 1, 2003, Sony Corporation implemented a share exchange as a result of which CIS Corporation became a wholly-owned subsidiary. As a result of this share exchange, Sony Corporation issued 1,088,304 new shares, and additional paid-in capital increased 5,409 million yen.

On November 20, 1991, Sony Corporation made a free share distribution of 33,908,621 shares in ratios of one share for each ten shares held for which no accounting entry was required in Japan. Had the distribution been accounted for in the manner adopted by companies in the United States of America, 201,078 million yen would have been transferred from retained earnings to the appropriate capital accounts. This has been the only free distribution of common stock where no accounting entry was required in Japan.

Conversions of convertible bonds into common stock are accounted for in accordance with the provisions of the Japanese Commercial Code by crediting approximately one-half of the conversion proceeds to the common stock account and the remainder to the additional paid-in capital account.

Prior to the amendments to the Japanese Commercial Code enacted on April 1, 2002, purchase and retirement by Sony Corporation of its own shares could be made at any time by resolution of the Board of Directors. No common stock and subsidiary tracking stock had been acquired under the approval during the year ended March 31, 2002.

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Following the amendments to the Japanese Commercial Code enacted on April 1, 2002, purchase by Sony Corporation of its own shares was subject to the prior approval of shareholders at the Ordinary General Meeting of Shareholders, which included the maximum number of shares and the maximum total amount to be purchased for each class of stock. Once such approval of shareholders was obtained, Sony Corporation could purchase its own shares at any time during the period up to the conclusion of the next Ordinary General Meeting of Shareholders.

The Ordinary General Meeting of Shareholders held on June 20, 2002 approved that Sony Corporation acquire up to a total not exceeding 90 million yen outstanding shares of its common stock at an amount in total not exceeding 650 billion yen and a total not exceeding 300 thousand outstanding shares of the subsidiary tracking stock at an amount in total not exceeding 1 billion yen until the conclusion of the General Meeting of Shareholders held for the year ended March 31, 2003. As a result, no common stock and subsidiary tracking stock had been acquired under this approval.

The Ordinary General Meeting of Shareholders held on June 20, 2003 approved that Sony Corporation acquire up to a total not exceeding 90 million yen outstanding shares of its common stock at an amount in total not exceeding 400 billion yen and a total not exceeding 300 thousand outstanding shares of the subsidiary tracking stock at an amount in total not exceeding 1 billion yen. As a result, Sony Corporation had acquired 2 million outstanding shares of its common stock at an amount in 8,200 million yen. No subsidiary tracking stock had been acquired under this approval.

The Ordinary General Meeting of Shareholders held on June 22, 2004 approved to amend the articles of incorporation that Sony Corporation may purchase its own shares by a resolution of the Board of Directors, in accordance with the amendments to the Japanese Commercial Code enacted on September 25, 2003. With the amendment of the articles of incorporation, Sony Corporation may purchase its own shares at any time by a resolution of the Board of Directors up to the retained earnings available for dividends to shareholders. No common stock and subsidiary tracking stock had been acquired by the resolution of the Board of Directors during the year ended March 31, 2005.

(3) Retained earnings:

The amount of statutory retained earnings of Sony Corporation available for dividends to shareholders as of March 31, 2005 was 557,856 million yen. The appropriation of retained earnings for the year ended March 31, 2005 including cash dividends for the six-month period ended March 31, 2005 has been incorporated in the accompanying consolidated financial statements. This appropriation of retained earnings was approved at the meeting of the Board of Directors of Sony Corporation held on May 16, 2005 and was then recorded in the statutory books of account, in accordance with the Japanese Commercial Code.

Retained earnings include Sony s equity in undistributed earnings of affiliated companies accounted for by the equity method in the amount of 2,261 million yen and 2,724 million yen at March 31, 2004 and 2005, respectively.

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(4) Other comprehensive income:

Other comprehensive income for the years ended March 31, 2003, 2004 and 2005 were as follows:

	Pre-tax amount	Tax expense	Net-of-tax amount
		(Yen in millions)	
For the year ended March 31, 2003:			
Unrealized gains on securities			
Unrealized holding gains (losses) arising during the period	(18,575)	8,948	(9,627)
Less: Reclassification adjustment for gains (losses) included in net income	3,421	867	4,288
Unrealized losses on derivative instruments			
Unrealized holding gains (losses) arising during the period	(6,268)	1,791	(4,477)
Less: Reclassification adjustment for gains (losses) included in net income	682	(287)	395
Minimum pension liability adjustment	(181,725)	71,089	(110,636)
Foreign currency translation adjustments			
Translation adjustments arising during the period	(87,103)	3,110	(83,993)
Less: Reclassification adjustment for losses included in net income	7,665		7,665
Other comprehensive income	(281,903)	85,518	(196,385)
For the year ended March 31, 2004:			
Unrealized gains on securities			
Unrealized holding gains (losses) arising during the period	89,861	(31,890)	57,971
Less: Reclassification adjustment for gains (losses) included in net income	(7,371)	1,692	(5,679)
Unrealized losses on derivative instruments			
Unrealized holding gains (losses) arising during the period	11,586	(4,049)	7,537
Less: Reclassification adjustment for gains (losses) included in net income	(5,961)	2,617	(3,344)
Minimum pension liability adjustment	162,408	(68,993)	93,415
Foreign currency translation adjustments			
Translation adjustments arising during the period	(134,312)	5,199	(129,113)
Less: Reclassification adjustment for losses included in net income	1,232		1,232
Other comprehensive income	117,443	(95,424)	22,019

SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES
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	Pre-tax amount	Tax expense	Net-of-tax amount
		(Yen in millions)	
For the year ended March 31, 2005:			
Unrealized gains on securities			
Unrealized holding gains (losses) arising during the period	7,184	(1,541)	5,643
Less: Reclassification adjustment for gains (losses) included in net income	(18,140)	5,216	(12,924)
Unrealized losses on derivative instruments			
Unrealized holding gains (losses) arising during the period	(2,015)	1,806	(209)
Less: Reclassification adjustment for gains (losses) included in net income	(2,848)	1,167	(1,681)
Minimum pension liability adjustment	(1,700)	931	(769)
Foreign currency translation adjustments			
Translation adjustments arising during the period	76,585	(2,361)	74,224
Other comprehensive income	59,066	5,218	64,284

During the years ended March 31, 2003 and 2004, 7,665 million yen and 1,232 million yen of foreign currency translation adjustments were transferred respectively from other comprehensive income and charged to income as a result of the liquidation of certain foreign subsidiaries.

As discussed in Note 5, as of August 1, 2004, Sony and Bertelsmann AG combined their recorded music businesses in a joint venture. In connection with the establishment of the joint venture, the minimum pension liability attributable to employees who were transferred to SONY BMG totaling 6,053 million yen was transferred from other comprehensive income to the carrying value of Sony s investment in SONY BMG.

16. *Stock-based compensation plans*

Sony has four types of stock-based compensation plans as incentive plans for directors, corporate executive officers and selected employees.

(1) Warrant plan:

Upon issuance of unsecured bonds with detachable warrants which are described in Note 11, Sony Corporation has purchased all of the detachable warrants and distributed them to the directors, corporate executive officers and selected employees of Sony. By exercising a warrant, directors, corporate executive officers and selected employees can purchase the common stock or subsidiary tracking stock of Sony Corporation, the number of which is designated by each plan. The warrants generally vest ratably over a period of three years, and are exercisable up to six years from the date of grant.

(2) Convertible Bond plan:

Sony has an equity-based compensation plan for selected executives of Sony s United States of America subsidiaries using U.S. dollar-denominated non-interest bearing convertible bonds which have characteristics similar to that of an option plan. Each convertible bond can be converted into 100 shares of the common stock of Sony Corporation at an exercise price based on the prevailing market rate shortly before the date of grant. The convertible bonds vest ratably over a three-year period and are exercisable up to ten years from the date of grant. As the convertible bonds were issued in exchange for a non-interest bearing employee loan and a right

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of offset exists between the convertible bonds and the employee loans, no accounting recognition was given to either the convertible bonds or the employee loans in Sony s consolidated balance sheet.

(3) Stock Acquisition Rights:

During the year ended March 31, 2003, Sony adopted an equity-based compensation plan that issues common stock acquisition rights for the purpose of granting stock options to the directors, corporate executive officers and selected employees of Sony, and subsidiary tracking stock acquisition rights for the purpose of granting stock options to the directors and selected employees of Sony Communication Network Corporation, pursuant to the Commercial Code of Japan. The stock acquisition rights generally vest ratably over a period of three years and are exercisable up to ten years from the date of grant.

Presented below is a summary of the activities regarding common stock warrant, convertible bond and stock acquisition rights plans for the years shown:

	Year Ended March 31					
	2003		2004		2005	
	Number of Shares	Weighted-average exercise price	Number of Shares	Weighted-average exercise price	Number of Shares	Weighted-average exercise price
		(Yen)		(Yen)		(Yen)
Outstanding at beginning of the fiscal year	5,853,892	8,648	9,640,892	7,832	11,705,592	6,082
Granted	3,874,100	5,313	2,621,400	5,017	2,433,600	3,996
Exercised					(27,400)	3,896
Forfeited	(87,100)	8,306	(556,700)	6,760	(998,592)	5,923
Outstanding at end of the fiscal year	9,640,892	7,832	11,705,592	6,082	13,113,200	5,754
Exercisable at end of the fiscal year	4,314,292	9,773	5,853,892	7,522	7,223,600	6,994

A summary of common stock warrants, convertible bond options and stock acquisition rights outstanding and exercisable at March 31, 2005 is as follows:

	Outstanding			Exercisable	
Exercise price	Number of	Weighted-average	Weighted-average	Number of	Weighted-average

range	Shares	exercise price	remaining life	Shares	exercise price
(Yen)		(Yen)	(Years)		(Yen)
3,782~7,000	10,497,600	4,680	8.24	4,608,000	5,250
7,001~13,202	2,615,600	10,065	3.14	2,615,600	10,065
3,782~13,202	13,113,200	5,754	7.22	7,223,600	6,994

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A summary of subsidiary tracking stock warrants and stock acquisition rights outstanding and exercisable at March 31, 2005 is as follows:

	Outstanding			Exercisable	
Exercise price range	Number of Shares	Weighted-average exercise price	Weighted-average remaining life	Number of Shares	Weighted-average exercise price
(Yen)		(Yen)	(Years)		(Yen)
815~3,300	181,500	1,591	7.22	90,300	2,118

As the exercise prices for the warrant, convertible bond and stock acquisition rights plans were determined based on the prevailing market price shortly before the date of grant, the compensation expense for these plans was not significant for the years ended March 31, 2003, 2004 and 2005.

As a result of the establishment of the joint venture between Sony s recorded music business with the recorded music business of Bertelsmann AG (Note 5), employees of Sony s recorded music business who were granted options under the convertible bond and stock acquisition rights plans prior to the establishment of the joint venture are no longer considered employees of Sony under FAS No. 123 as these individual are now employees of SONY BMG which is accounted for under the equity method. As a result, a compensation charge of 340 million yen was recorded based on the fair value method of accounting for stock-based compensation using the Black-Scholes model. The fair value of the options as of August 1, 2004, the date on which the joint venture was established, was 538 million yen and is being recognized into income over the remaining vesting period of the options.

The weighted-average fair value per share at the date of grant of common stock warrants, convertible bond options and stock acquisition rights granted during the years ended March 31, 2003, 2004 and 2005 were 2,063, 1,413 and 1,085, respectively. The fair value of common stock warrants, convertible bond options and stock acquisition rights granted on the date of grant, which is amortized to expense over the vesting period in determining the pro forma impact, is estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Year Ended March 31		
Weighted-average assumptions	2003	2004	2005
Risk-free interest rate	2.76%	2.18%	2.04%
Expected lives	4.23 years	3.67 years	3.54 years
Expected volatility	47.33%	42.83%	35.56%
Expected dividend	0.47%	0.57%	0.62%

(4) SAR plan:

Sony granted stock appreciation rights (SARs) in Japan, Europe and the United States of America for selected employees. Under the terms of these plans, employees on exercise receive cash equal to the amount that the market price of Sony Corporation s common stock exceeds the strike price of the SARs. The SARs generally vest ratably over a period of three years, and are generally exercisable up to six to ten years from the date of grant. Sony holds treasury stock for the SAR plan in Japan to minimize cash flow exposure associated with the SARs. In addition, Sony uses various strategies to minimize the compensation expense associated with the SAR plans in the United States of

America and Europe.

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The status of the SAR plans is summarized as follows:

	Year Ended March 31					
	2003		2004		2005	
	Number of SARs	Weighted-average exercise price (Yen)	Number of SARs	Weighted-average exercise price (Yen)	Number of SARs	Weighted-average exercise price (Yen)
Outstanding at beginning of the fiscal year	2,410,394	6,644	2,343,028	6,341	1,526,568	6,424
Granted	28,750	6,323				
Exercised	(11,800)	5,727			(241,134)	3,955
Expired or forfeited	(84,316)	7,274	(816,460)	5,494	(420,350)	5,855
Outstanding at end of the fiscal year	2,343,028	6,341	1,526,568	6,424	865,084	7,436
Exercisable at end of the fiscal year	2,176,319	6,211	1,462,391	6,421	856,156	7,455

A summary of SARs outstanding and exercisable at March 31, 2005 is as follows:

	Outstanding			Exercisable	
Exercise price range (Yen)	Number of SARs	Weighted-average exercise price (Yen)	Weighted-average remaining life (Years)	Number of SARs	Weighted-average exercise price (Yen)
3,234~5,000	61,850	4,767	6.77	61,850	4,767
5,001~10,000	749,109	7,365	1.08	740,181	7,386
10,001~13,419	54,125	11,471	4.56	54,125	11,471
3,234~13,419	865,084	7,436	1.70	856,156	7,455

In accordance with APB No. 25 and its related interpretations, the SARs compensation expense is measured as the excess of the quoted market price of Sony Corporation s common stock over the SARs strike price, which is consistent with the accounting treatment prescribed for SAR plans in FAS No. 123. For the year ended March 31, 2003, Sony recognized a reduction in SARs compensation expense of 670 million yen due to the decline in Sony s stock price during the year. For the year ended March 31, 2004, Sony recognized 105 million yen of SARs compensation expense. For the year ended March 31, 2005, Sony recognized a reduction in SARs compensation expense of 74 million yen.

17. ***Restructuring charges and asset impairments***

As part of its effort to improve the performance of the various businesses, Sony has undertaken a number of restructuring initiatives within the Electronics, Music and Pictures segments. For the years ended March 31, 2003, 2004 and 2005, Sony recorded total restructuring charges of 106,251 million yen, 168,091 million yen and 89,963 million yen, respectively. Significant restructuring charges and asset impairments include the following:

Electronics Segment

In an effort to improve the performance of the Electronics segment, Sony has undergone a number of restructuring efforts to reduce its operating costs. For the years ended March 31, 2003, 2004 and 2005, Sony recorded total restructuring charges of 72,473 million yen, 143,310 million yen and 81,768 million yen, respectively, within the Electronics segment. In addition to the above charges, the Electronics segment also reflects restructuring of 7,950 million yen and 2,122 million yen for the years ended March 31, 2003 and 2004,

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respectively, that relate to the non-Japan based disc manufacturing and physical distribution businesses that were part of the restructuring charges of the Music segment which is discussed below. These restructuring charges were formerly included within the Music segment but were reclassified to the Electronics segment. See Notes 5 and 24 for more information on this reclassification. Significant restructuring activities are the following:

Downsizing of computer display CRT operations -

In the year ended March 31, 2003, due to the market shrinkage and demand shift from CRT displays to LCDs, Sony made a decision to discontinue certain computer display CRT manufacturing operations in Japan and Southeast Asia to rationalize production facilities and downsize its business. Restructuring charges totaling 6,902 million yen consisted of personnel related costs of 1,208 million yen, non-cash equipment impairment and disposal costs of 4,010 million yen and contract termination and other costs of 1,684 million yen. Of the total restructuring charges, 1,264 million yen was recorded in cost of sales; 1,684 million yen was included in selling, general and administrative expenses, and 3,954 million yen was recorded in loss on sale, disposal or impairment of assets, net in the consolidated statements of income. The restructuring activity was completed in the year ended March 31, 2003 and no liability existed as of March 31, 2004.

Downsizing of CRT TV display operations -

Due to the worldwide market shrinkage and demand shift from CRT displays to plasma and LCD panel displays, Sony has begun to implement a worldwide plan to rationalize production facilities of CRT TV display and downsize its business over the next several years. The overall restructuring plan is still being formulated as Sony is carefully monitoring the market situation in each area. As a result, the expected completion date and total estimated cost of this program cannot be determined at this time.

As part of its worldwide plan, Sony made a decision in the year ended March 31, 2004 to discontinue certain CRT TV display manufacturing operations in Japan. Restructuring charges totaling 8,478 million yen consisted of personnel related costs of 3,139 million yen and non-cash equipment impairment, disposal and other costs of 5,339 million yen. Of the total restructuring charges, 158 million yen was recorded in cost of sales, 3,139 million yen was included in selling, general and administrative expenses, and 5,181 million yen was included in loss on sale, disposal or impairment of assets, net in the consolidated statements of income. This phase of the restructuring program was completed in the year ended March 31, 2004 and no liability existed as of March 31, 2005.

In the year ended March 31, 2005, as part of this restructuring program, Sony recorded a non-cash impairment charge of 7,479 million yen for the CRT TV display manufacturing facilities located in Europe. The impairment charge was calculated as the difference between the carrying value of the asset group and the present value of estimated future cash flows. The charge was recorded in loss on sale, disposal or impairment of assets, net in the consolidated statements of income. This phase of the restructuring program was completed in the year ended March 31, 2005 and no liability existed as of March 31, 2005.

Aiwa Co., Ltd. restructuring -

Due to the continued decline in the operating results of Aiwa, the restructuring program that was initiated in the year ended March 31, 2002 was accelerated and additional restructuring charges of 23,007 million yen were recorded in the year ended March 31, 2003. Additional restructuring included further cuts in staffing levels and the shutdown of remaining production facilities. These charges consisted of non-cash equipment impairment and disposal costs of 3,504 million yen, personnel related costs of 7,647 million yen, devaluation of inventory of 6,144 million yen, operating lease termination costs of 3,823 million yen and other costs of 1,889 million yen. Among these charges 13,791 million yen was recorded in cost of sales, 5,712 million yen

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was included in selling, general and administrative expenses, and 3,504 million yen was included in loss on sale, disposal or impairment of assets, net in the consolidated statements of income. The restructuring program was completed in the year ended March 31, 2003 and no liability existed as of March 31, 2003. Aiwa Co., Ltd. was merged into Sony Corporation as of December 1, 2002.

Closing of a semiconductor plant in the U.S. -

Due to a significant decline in the business conditions of the U.S. semiconductor industry, Sony made a decision in the fourth quarter of the year ended March 31, 2003, to close a semiconductor plant in the U.S. This restructuring activity was substantially completed in the year ended March 31, 2005 and total restructuring charges of 4,936 million yen have been incurred through March 31, 2005. The remaining liability balance as of March 31, 2005 was 161 million yen and will be paid or settled through the year ended March 31, 2006.

During the year ended March 31, 2003, Sony recorded restructuring charges totaling 5,856 million yen, which consisted of the accelerated depreciation of equipment of 3,128 million yen, personnel related costs of 1,329 million yen and the devaluation of inventory and other costs of 1,399 million yen. These charges were all recorded in cost of sales in the consolidated statements of income.

During the year ended March 31, 2004, Sony recorded net restructuring charges totaling 874 million yen which consisted of the accelerated depreciation and write-down of equipment of 1,982 million yen, gain on disposal of assets of 1,962 million yen, and 854 million yen of other costs including lease contract termination costs. Among these charges 1,760 million yen was recorded in cost of sales, while asset write-down and disposal costs of 1,076 million yen and the gain on asset disposals of 1,962 million yen were included in loss on sale, disposal or impairment of assets, net in the consolidated statements of income.

During the year ended March 31, 2005, Sony sold the facilities and recorded a gain on disposal of 1,794 million yen. The gain was included in loss (gain) on disposal or impairment of assets, net in the consolidated statements of income.

Retirement Programs -

In addition to the restructuring efforts disclosed above, Sony has undergone several headcount reduction programs to further reduce operating costs in the Electronics segment. As a result of these programs, Sony recorded restructuring charges totaling 22,236 million yen, 114,870 million yen and 50,276 million yen for the years ended March 31, 2003, 2004 and 2005, respectively, and these charges were included in selling, general and administrative expenses in the consolidated statements of income. These staff reductions were achieved worldwide mostly through the implementation of early retirement programs. The remaining liability balance as of March 31, 2005 was 14,011 million yen and will be paid through the year ending March 31, 2006. Sony will continue seeking the appropriate level of headcount to optimize the workforce in the Electronics segment.

Music Segment

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 excluding Japan. As part of this restructuring program, Sony combined its recorded music business with the recorded music business of Bertelsmann AG to form SONY BMG, a joint venture that is accounted for under the equity method. See Note 5 for more information on this transaction. For the years ended March 31, 2003,

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2004 and 2005, Sony recorded total restructuring charges of 22,350 million yen, 10,691 million yen and 3,025 million yen, respectively, related to the restructuring of the Music segment excluding Japan. Of these restructuring charges, 7,950 million yen and 2,122 million yen for the years ended March 31, 2003 and 2004, respectively, were recorded in the non-Japan based disc manufacturing and physical distribution businesses, formerly included within the Music segment but reclassified to the Electronics segment. See Notes 5 and 24 for more information on this reclassification. This worldwide restructuring of the Music segment is expected to be completed during the year ended March 31, 2006, and the total cost of the program is estimated to be 53,106 million yen, of which 52,573 million yen was incurred from the inception of the program through the year ended March 31, 2005. The restructuring costs within the Music segment do not include the restructuring costs of SONY BMG since the establishment of the joint venture. At March 31, 2005, the liability balance was 1,856 million yen with most of the liabilities to be paid or settled during the year ending March 31, 2006.

In addition to the above, Sony also recorded restructuring charges of 1,519 million yen, 1,291 million yen and 803 million yen for the years ended March 31, 2003, 2004 and 2005, respectively, in Japan, which were primarily personnel related costs included in selling, general and administrative expenses in the consolidated statement of income.

Significant restructuring activities included the following:

In the year ended March 31, 2003, restructuring charges related to the worldwide restructuring of the Music segment totaled 22,350 million yen. Restructuring activities included the further consolidation of operations through the shutdown of a cassette and CD manufacturing and distribution center in Holland and a CD manufacturing facility in the U.S. as well as further staff reductions in other areas. The restructuring charges consisted of personnel related costs of 14,932 million yen, non-cash asset impairment and disposal costs of 3,256 million yen and other costs of 4,162 million yen including lease termination costs. Among these charges 19,094 million yen was recorded in selling, general and administrative expenses, and 3,256 million yen was included in loss on sale, disposal or impairment of assets, net in the consolidated statements of income. Employees were eliminated across various employee levels, business functions, operating units, and geographic regions during this phase of the worldwide restructuring program.

During the year ended March 31, 2004, Sony broadened the scope of its worldwide restructuring of the Music segment, which resulted in restructuring charges totaling 10,691 million yen. Restructuring activities included the continuation of the shutdown of the CD manufacturing facility in the U.S. as well as the restructuring of music label operations and the further rationalization of overhead functions through staff reductions. The restructuring charges consisted of personnel related costs of 5,137 million yen, lease abandonment costs of 1,323 million yen and other related costs of 4,231 million yen including non-cash asset impairment and disposal costs. Most of these charges are included in selling, general and administrative expenses in the consolidated statements of income. Employees were eliminated across various employee levels, business functions, operating units, and geographic regions during this phase of the worldwide restructuring program.

During the year ended March 31, 2005, in continuation of the worldwide restructuring program and in connection with the establishment of the joint venture with Bertelsmann AG (Note 5), Sony recorded restructuring charges totaling 3,025 million yen within the Music segment. Restructuring activities included the shutdown of certain distribution operations that were no longer required as a result of the recorded music joint venture with Bertelsmann AG as well as the further rationalization of overhead functions through staff reductions. The restructuring charges consisted of personnel related costs of 883 million yen and other related costs of 2,142 million yen. These charges are included in selling, general and administrative expenses in the consolidated statements of income. Employees were eliminated across various employee levels, business functions, operating units, and geographic regions during this phase of the worldwide restructuring program.

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Pictures Segment

In an effort to improve the performance of the Pictures segment, Sony has undergone a number of restructuring efforts to reduce its operating costs. For the years ended March 31, 2003, 2004 and 2005, Sony recorded total restructuring charges of 480 million yen, 4,611 million yen and 385 million yen, respectively, within the Pictures segment. Significant restructuring activities are the following:

Consolidation of Television Operations -

Due to changes within the television production and distribution business, the competition between network owned production companies and other production and distribution companies to license product to the major televisions networks is becoming more intense. This competitive environment has resulted in fewer opportunities to produce shows for the networks and a shorter lifespan for ordered shows that do not immediately achieve favorable ratings. This trend has resulted in an increase in the number of new programs being distributed yet canceled in their first or second season, which are generally less profitable, and a decrease in the number of network programs that are able to achieve syndication, which are generally more profitable. As a result, in the year ended March 31, 2002, Sony decided to consolidate its television operations and downsize the network television production business in the Pictures segment. In the year ended March 31, 2003, Sony recorded restructuring charges totaling 480 million yen. These costs were included in cost of sales in the consolidated statements of income. This restructuring program was completed in the year ending March 31, 2005, and the total cost of the program from the inception was 8,932 million yen. No liability existed as of March 31, 2005.

Fixed Cost Reduction Program -

During the year ended March 31, 2004, the Pictures segment implemented a fixed cost reduction program to further reduce its operating costs. This restructuring program primarily related to the reduction of staffing levels and the disposal of certain long-lived assets. This restructuring program was substantially completed during the year ended March 31, 2005 and the total cost of this restructuring program was 4,996 million yen.

The Pictures segment recorded 4,611 million yen of these costs during the year ended March 31, 2004. These restructuring charges consisted of personnel related costs of 993 million yen, non-cash asset impairment and disposal costs of 1,746 million yen, and other costs of 1,872 million yen including those relating to the buy-out of term deal commitments. Of the restructuring costs incurred, 1,525 million yen was included in cost of sales, 1,340 million yen was included in selling, general and administrative expenses, and 1,746 million yen was included in loss on sale, disposal or impairment of assets, net in the consolidated statements of income.

During the year ended March 31, 2005, the Pictures segment substantially completed the fixed cost reduction program and recorded 385 million yen of additional restructuring costs. These restructuring charges consisted primarily of personnel related costs of 292 million yen which were included in selling, general and administrative expenses in the consolidated statements of income. At March 31, 2005, the remaining liability balance was 207 million yen, which will be paid or settled over the next year.

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The changes in the accrued restructuring charges for the years ended March 31, 2003, 2004 and 2005 are as follows:

	Employee termination benefits	Non-cash write-downs and disposals	Other associated costs	Total
		(Yen in millions)		
Balance at March 31, 2002	6,243		13,637	19,880
Restructuring costs	46,953	42,768	16,530	106,251
Non-cash charges		(42,240)		(42,240)
Cash payments	(38,548)		(23,172)	(61,720)
Adjustments	136	(528)	(1,208)	(1,600)
Balance at March 31, 2003	14,784		5,787	20,571
Restructuring costs	133,367	19,170	15,554	168,091
Non-cash charges		(19,170)		(19,170)
Cash payments	(124,674)		(13,686)	(138,360)
Adjustments	1,173	0	333	1,506
Balance at March 31, 2004	24,650		7,988	32,638
Restructuring costs	53,563	25,564	10,836	89,963
Non-cash charges		(25,564)		(25,564)
Cash payments	(61,523)		(10,427)	(71,950)
Adjustments*	(1,705)		(3,096)	(4,801)
Balance at March 31, 2005	14,985		5,301	20,286

* Adjustments primarily consist of the transfer of the accrued restructuring charges to SONY BMG, a joint venture with Bertelsmann AG (Note 5).

18. *Research and development costs, advertising costs and shipping and handling costs*

(1) Research and development costs:

Research and development costs charged to cost of sales for the years ended March 31, 2003, 2004 and 2005 were 443,128 million yen, 514,483 million yen and 502,008 million yen, respectively.

(2) Advertising costs:

Advertising costs included in selling, general and administrative expenses for the years ended March 31, 2003, 2004 and 2005 were 442,741 million yen, 421,433 million yen and 359,661 million yen, respectively.

(3) Shipping and handling costs:

Shipping and handling costs for finished goods included in selling, general and administrative expenses for the years ended March 31, 2003, 2004 and 2005 were 98,195 million yen, 106,590 million yen and 107,983 million yen, respectively, which included the internal transportation costs of finished goods.

19. *Gain on change in interest in subsidiaries and equity investees*

In January 2004, FeliCa Networks, Inc., whose field of business is Mobile FeliCa IC chip development and production/sales licensing and operation of the Mobile FeliCa service platform, issued 115,000 shares at

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100,000 per share with a total value of 11,500 million yen in connection with its private offering. As a result of this issuance, Sony recorded a gain of 3,364 million yen and provided deferred taxes on this gain. This issuance reduced Sony s ownership interest from 100% to 60%.

In addition to the above transaction, for the year ended March 31, 2004, Sony recognized 1,506 million yen of other gains on change in interest in subsidiaries and equity investees resulting in total gains of 4,870 million yen.

In August 2, 2004, Monex Inc., which provides on-line security trading services in Japan, and Nikko Beans, Inc. established Monex Beans Holdings, Inc. by way of share transfer of the existing shares of Monex Inc. and Nikko Beans, Inc.. At this establishment, 1 share of Monex Beans Holdings, Inc. was allotted to each share of Monex Inc. and 3.4 shares of Monex Beans Holdings, Inc. were allotted to each share of Nikko Beans, Inc.. As a result of this share transfer, Monex Beans Holdings, Inc. issued 2,341,287 shares and Sony recorded a gain of 8,951 million yen and provided deferred taxes on this gain. This issuance reduced Sony s ownership interest from 29.9% to 20.1%.

In September 2004, So-net M3 Inc., which provides medical services via the Internet in Japan, issued 2,800 shares at 850,000 yen per share with a total value of 2,380 million yen in connection with its initial public offering. Sony Communication Network Corporation, a parent company of So-net M3 Inc., sold 3,260 shares of So-net M3 Inc., at 790,500 yen per share with a total value of 2,577 million yen. In October 2004, Sony Communication Network Corporation sold 740 shares of So-net M3 Inc., at 790,500 yen per share with a total value of 585 million yen. As a result of these transactions, Sony recorded a 1,823 million yen gain on issuance of stock by So-net M3 Inc. and provided deferred taxes on this gain. In addition, Sony recorded a 2,876 million yen gain on the sale of its stock. These transactions reduced Sony s ownership interest from 90.0% to 74.8%.

In June 6, 2005, Sony Communication Network Corporation sold 17,935 shares of So-net M3 Inc., at 694,600 yen per share with a total value of 12,458 million yen. As a result of this sale, Sony records 11,979 million yen gain on the sale of its stock for the year ending March 31, 2006, and Sony s ownership interest has been reduced from 74.8% to 60.8%.

In January 2005, DeNA Co., Ltd., whose field of business is operation of on-line auction websites in Japan, issued 14,000 shares at 204,600 yen per share with a total value of 2,864 million yen in connection with its initial public offering. In March 2005, Sony Communication Network Corporation, which had owned 27.7% interest in DeNA Co., Ltd., sold 2,000 shares of DeNA Co., Ltd. at 204,600 yen per share with a total value of 409 million yen. As a result of these transactions, Sony recorded a 686 million yen gain on issuance of stock by DeNA Co., Ltd. and provided deferred taxes on this gain. In addition, Sony recorded a 76 million yen gain on the sale of its stock. These transactions reduced Sony s ownership interest from 27.7% to 24.8%.

In addition to the above transactions, for the year ended March 31, 2005, Sony recognized 1,911 million yen of other gains on change in interest in subsidiaries and equity investees resulting in total gains of 16,322 million yen. These transactions were not part of a broader corporate reorganization and the reacquisition of such shares was not contemplated at the time of issuance.

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20. *Income taxes*

Income before income taxes and income tax expense comprise the following:

	Year Ended March 31		
	2003	2004	2005
	(Yen in millions)		
Income (loss) before income taxes:			
Sony Corporation and subsidiaries in Japan	(7,998)	(84,571)	5,005
Foreign subsidiaries	255,619	228,638	152,202
	247,621	144,067	157,207
Income taxes Current:			
Sony Corporation and subsidiaries in Japan	69,311	22,286	23,497
Foreign subsidiaries	109,536	64,933	62,013
	178,847	87,219	85,510
Income taxes Deferred:			
Sony Corporation and subsidiaries in Japan	(90,016)	(32,845)	4,976
Foreign subsidiaries	(8,000)	(1,600)	(74,442)
	(98,016)	(34,445)	(69,466)

Sony is subjected to a number of different income taxes. Due to changes in Japanese income tax regulations, a consolidated tax filing system was introduced on April 1, 2002. Sony applied to file its return under the consolidated tax filing system beginning with the year ended March 31, 2004. Under the Japanese consolidated tax filing system, a 2% surtax was imposed only for the year ended March 31, 2004. As a result, the statutory tax rate was 43.9% for the year ended March 31, 2004.

During the year ended March 31, 2005, a corporation size-based enterprise tax was introduced in Japan and the portion of enterprise tax subject to income was reduced. As a result, the statutory tax rate for the year ended March 31, 2005 was approximately 41% effective April 1, 2004. The effect of the change in the tax rate on the balance of deferred tax assets and liabilities was insignificant.

Reconciliation of the differences between the statutory tax rate and the effective income tax rate is as follows:

	Year Ended March 31		
	2003	2004	2005
Statutory tax rate	42.0%	43.9%	41.0%
Increase (reduction) in taxes resulting from:			
Income tax credits	(1.9)	(2.4)	(0.1)
Change in valuation allowances	5.5	6.5	(22.7)

Decrease in deferred tax liabilities on undistributed earnings of foreign subsidiaries	(14.8)	(9.2)	(4.0)
Lower tax rate applied to life and non-life insurance business in Japan	(0.6)	(2.6)	(1.9)
Other	2.4	0.4	(2.1)
Effective income tax rate	32.6%	36.6%	10.2%

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The significant components of deferred tax assets and liabilities are as follows:

	March 31	
	2004	2005
	(Yen in millions)	
Deferred tax assets:		
Operating loss carryforwards for tax purposes	196,308	193,212
Accrued pension and severance costs	150,073	159,610
Film costs	54,194	56,746
Warranty reserve and accrued expenses	45,664	56,551
Future insurance policy benefits	35,855	36,654
Accrued bonus	36,285	34,536
Inventory intercompany profits and write-down	30,241	30,270
Depreciations	14,108	15,320
Tax credit carryforwards	13,740	8,552
Reserve for doubtful accounts	14,005	6,574
Other	141,731	153,525
Gross deferred tax assets	732,204	751,550
Less: Valuation allowance	(127,577)	(89,110)
Total deferred tax assets	604,627	662,440
Deferred tax liabilities:		
Insurance acquisition costs	(125,768)	(135,083)
Unbilled accounts receivable in the Pictures business	(71,586)	(57,314)
Unrealized gains on securities	(45,239)	(41,564)
Intangible assets acquired through exchange offerings	(36,490)	(35,418)
Undistributed earnings of foreign subsidiaries	(44,778)	(30,865)
Gain on securities contribution to employee retirement benefit trust	(16,899)	(6,184)
Other	(39,435)	(58,714)
Gross deferred tax liabilities	(380,195)	(365,142)
Net deferred tax assets	224,432	297,298

The valuation allowance mainly relates to deferred tax assets of Sony Corporation and certain consolidated subsidiaries with operating loss carryforwards and tax credit carryforwards for tax purposes that are not expected to be realized. The net changes in the total valuation allowance were a decrease of 136,140 million yen for the year ended March 31, 2003, an increase of 11,509 million yen for the year ended March 31, 2004 and a decrease of 38,467 million yen for the year ended March 31, 2005.

As a result of recording of operating losses in the past, the U.S. subsidiaries of Sony have had valuation allowances against deferred tax assets for U.S. federal and certain state taxes. However, based on both improved operating results in recent years and a sound outlook for the future operating performance of Sony s U.S. subsidiaries, Sony reversed 67,892 million yen of valuation allowance, resulting in a reduction of income tax expenses for the year ended March 31, 2005.

For the year ended March 31, 2003, 33,525 million yen of the decrease in the valuation allowance relates to the realization of tax benefits from operating loss carryforwards that were acquired in connection with

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Sony s acquisition of companies within the Electronics, Music and Pictures segments The reversal of the valuation allowance upon realization of tax benefit from operating loss carryforwards resulted in the reduction of goodwill.

Tax benefits which have been realized through utilization of operating loss carryforwards for the years ended March 31, 2003, 2004 and 2005 were approximately 19,000 million yen, 12,000 million yen and 30,000 million yen, respectively.

Net deferred tax assets are included in the consolidated balance sheets as follows:

	March 31	
	2004	**2005**
	(Yen in millions)	
Current assets Deferred income taxes	125,532	141,154
Other assets Deferred income taxes	203,203	240,396
Current liabilities Other	(8,110)	(12,025)
Long-term liabilities Deferred income taxes	(96,193)	(72,227)
Net deferred tax assets	224,432	297,298

At March 31, 2005, no deferred income taxes have been provided on undistributed earnings of foreign subsidiaries not expected to be remitted in the foreseeable future totaling 988,515 million yen, and on the gain of 61,544 million yen on a subsidiary s sale of stock arising from the issuance of common stock of Sony Music Entertainment (Japan) Inc. in a public offering to third parties in November 1991, as Sony does not anticipate any significant tax consequences on possible future disposition of its investment based on its tax planning strategies. The unrecognized deferred tax liabilities as of March 31, 2005 for such temporary differences amounted to 217,792 million yen.

Operating loss carryforwards for corporate income tax and local income tax purposes of Sony Corporation and certain consolidated subsidiaries in Japan at March 31, 2005 amounted to 266,763 million yen and 520,556 million yen, respectively, which are available as an offset against future taxable income. Deferred tax asset on the operating loss carryforwards for corporate income tax and local income tax in Japan are calculated by multiplying approximately 28% and 13%, respectively.

Operating loss carryforwards for tax purposes of certain foreign consolidated subsidiaries at March 31, 2005 amounted to 139,100 million yen.

With the exception of 115,714 million yen with no expiration period, total available operating loss carryforwards expire at various dates primarily up to 7 years.

Tax credit carryforwards for tax purposes at March 31, 2005 amounted to 8,552 million yen. With the exception of 6,995 million yen with no expiration period, total available tax credit carryforwards expire at various dates primarily up to 9 years. Realization is dependent on whether such companies will be able to generate sufficient taxable income prior to expiration of the loss carryforwards and tax credit carryforwards. Although realization is not assured, management believes it is more likely than not that all of the deferred tax assets, less valuation allowance, will be realized. The amount of such net deferred tax assets considered realizable, however, could be changed in the near term if estimates of future taxable income during the carryforward period are changed.

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21. ***Reconciliation of the differences between basic and diluted net income per share (EPS)***

(1) Income before cumulative effect of accounting changes and net income allocated to each class of stock:

	Year Ended March 31		
	2003	2004	2005
	(Yen in millions)		
Income before cumulative effect of an accounting change allocated to the common stock	115,648	90,756	168,498
Income before cumulative effect of an accounting change allocated to the subsidiary tracking stock	(129)	(128)	53
Income before cumulative effect of an accounting change	115,519	90,628	168,551
Net income allocated to the Common stock	115,648	88,639	163,785
Net income allocated to the subsidiary tracking stock	(129)	(128)	53
Net income	115,519	88,511	163,838

As discussed in Note 2, the earnings allocated to the subsidiary tracking stock are determined based on the subsidiary tracking stockholders economic interest. The accumulated losses of SCN (the subsidiary tracking stock entity as discussed in Note 15) used for computation of earnings per share attributable to subsidiary tracking stock were 779 million yen, 1,764 million yen and 1,358 million yen as of March 31, 2003, 2004 and 2005, respectively.

(2) EPS attributable to common stock:

Reconciliation of the differences between basic and diluted EPS for the years ended March 31, 2003, 2004 and 2005 is as follows:

	Year Ended March 31		
	2003	2004	2005
	(Yen in millions)		
Income before cumulative effect of an accounting change allocated to the common stock	115,648	90,756	168,498
Effect of dilutive securities:			
Convertible bonds	2,398	2,260	1,209
Subsidiary tracking stock			(0)

Income before cumulative effect of an accounting change allocated to the common stock for diluted EPS computation	118,046	93,016	169,707

	Thousands of shares		
Weighted-average shares	919,706	923,650	931,125
Effect of dilutive securities:			
Warrants and stock acquisition rights	12	48	61
Convertible bonds	78,873	121,120	112,589
Weighted-average shares for diluted EPS computation	998,591	1,044,818	1,043,775

	Yen		
Basic EPS	125.74	98.26	180.96
Diluted EPS	118.21	89.03	162.59

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Potential common stock upon the exercise of warrants and stock acquisition rights, which were excluded from the computation of diluted EPS since they have an exercise price in excess of the average market value of Sony s common stock during the fiscal year, were 4,141 thousand shares, 6,796 thousand shares, and 7,987 thousand shares for the years ended March 31, 2003, 2004 and 2005, respectively.

Warrants and stock acquisition rights of subsidiary tracking stock for the years ended March 31, 2003 and 2004, which have a potentially dilutive effect by decreasing net income allocated to common stock, were excluded from the computation of diluted EPS since they did not have a dilutive effect.

Stock options issued by affiliated companies accounted for under the equity method for the years ended March 31, 2003, 2004 and 2005, which have a potentially dilutive effect by decreasing net income allocated to common stock, were excluded from the computation of diluted EPS since such stock options did not have a dilutive effect.

On October 1, 2002, Sony implemented a share exchange as a result of which Aiwa Co.,Ltd. became a wholly-owned subsidiary. As a result of this share exchange, Sony issued 2,502 thousand shares. The shares were included in the computation of basic and diluted EPS.

On May 1, 2003, Sony implemented a share exchange as a result of which CIS Corporation became a wholly-owned subsidiary. As a result of this share exchange, Sony issued 1,088 thousand shares. The shares were included in the computation of basic and diluted EPS.

As a result of the adoption of EITF Issue No. 04-8, Sony s diluted EPS of income before cumulative effect of an accounting change for the year ended March 31, 2004 was restated in the above table (Note 2).

(3) EPS attributable to subsidiary tracking stock:

Weighted-average shares used for computation of EPS attributable to subsidiary tracking stock for the years ended March 31, 2003, 2004 and 2005 were 3,072 thousand shares. As discussed in Note 2, there were no potentially dilutive securities for EPS of subsidiary tracking stock outstanding at March 31, 2003, 2004 and 2005.

22. *Variable interest entities*

Sony has, from time to time, entered into various arrangements with VIEs. These arrangements consist of facilities which provide for the leasing of certain property, the financing of film production, the development and operation of a multi-use real estate complex and the implementation of a stock option plan for Japanese employees. As described in Note 2, the FASB issued FIN No. 46, which requires the consolidation or disclosure of VIEs. The VIEs that have been consolidated by Sony are described as follows:

Sony leases the headquarters of its U.S. subsidiary from a VIE, which has been consolidated by Sony since July 1, 2003. Upon consolidation of the VIE, assets and liabilities increased by 25,277 million yen and 27,035 million yen, respectively, and a cumulative effect of accounting change of 1,729 million yen was charged to net income with no tax effect. Sony has the option to purchase the building at any time during the lease term which expires in December 2008 for 27,374 million yen. The debt held by the VIE is unsecured. At the end of the lease term, Sony has agreed to either renew the lease, purchase the building or remarket it to a third party on behalf of the owner. If the sales price is less than 27,374 million yen, Sony is obligated to make up the lesser of the shortfall or 22,973 million yen.

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SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A subsidiary in the Pictures segment entered into a joint venture agreement with a VIE for the purpose of funding the acquisition of certain international film rights. The subsidiary is required to distribute the product internationally, for contractually defined fees determined as percentages of gross receipts, as defined, and is responsible for all distribution and marketing expenses, which are recouped from such distribution fees. The VIE was capitalized with total financing of 43,584 million yen. Of this amount, 1,181 million yen was contributed by the subsidiary, 10,198 million yen was provided by unrelated third party investors and the remaining funding is provided through a 32,205 million yen bank credit facility. On July 1, 2003, Sony consolidated this entity. Upon consolidation of the VIE, assets and liabilities increased by 10,179 million yen and 10,586 million yen, respectively, and a cumulative effect of accounting change of 388 million yen was charged to net income with no tax effect. As of March 31, 2005, the total outstanding under the bank credit facility was 6,441 million yen. Under the agreement, the subsidiary s 1,181 million yen equity investment is the last equity to be repaid. Additionally, it must pay to the third party investors up to 2,040 million yen of any losses out of a portion of its distribution fees. Any losses incurred by the VIE over and above 3,221 million yen will be shared by the other investors. The subsidiary acquired the international distribution rights, as defined, to twelve pictures meeting certain minimum requirements within the time period provided in the agreement.

Sony had utilized a VIE to erect and operate a multi-use real estate complex in Berlin, Germany, which had been 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 61,320 million yen and 60,329 million yen, respectively. However, there was no impact to Sony s net income. On November 4, 2004, Sony purchased the remaining shares of the VIE from other partners. As a result, it is now a 100% owned subsidiary and no longer a VIE.

Sony has utilized a VIE to implement a stock option plan for selected Japanese employees. The VIE has been consolidated by Sony since its establishment. With respect to this entity, there was no impact to Sony s results of operations and financial position upon the adoption of FIN No. 46. Under the terms of the stock option plan, upon exercise, Japanese employees receive cash equal to the amount that the market price of Sony Corporation s common stock exceeds the strike price of the plan. In order to minimize cash flow exposure associated with the plan, Sony holds treasury stock through the VIE. The VIE purchased the common stock with funding provided by the employee s cash contribution and a bank loan. At March 31, 2005, the balance of the bank loan was 3,034 million yen.

As of March 31, 2005, there is no VIE in which Sony holds a significant variable interest that Sony is not the primary beneficiary.

As described in Note 5, on April 8, 2005, a consortium led by SCA and its equity partners completed the acquisition of MGM. Sony has reviewed the investment and determined that MGM is a VIE. However, MGM will not be consolidated but accounted for under the equity method as Sony is not the primary beneficiary of this VIE.

23. *Commitments and contingent liabilities*

(1) Commitments:

A. Purchase Commitments

Commitments outstanding at March 31, 2005 amounted to 240,729 million yen. The major components of these commitments are as follows:

In the ordinary course of business, Sony makes commitments for the purchase of property, plant and equipment. As of March 31, 2005, such commitments outstanding were 83,683 million yen.

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SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES
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Certain subsidiaries in the Pictures segment have entered into agreements with creative talent for the development and production of films and television programming as well as agreements with third parties to acquire completed films, or certain rights therein. These agreements cover various periods through March 31, 2008. As of March 31, 2005, these subsidiaries were committed to make payments under such contracts of 51,625 million yen.

A subsidiary in the Pictures segment has also entered into a distribution agreement with a third party to distribute, in certain markets and territories, all feature length films produced or acquired by the third party during the term of the agreement. The distribution agreement expires on December 31, 2006 if a minimum of 36 films have been delivered as of that date. If 36 films have not been delivered by December 31, 2006, the distribution agreement expires on the earlier of the delivery of the 36th film or May 25, 2007. It is estimated that the third party will produce or acquire a total of 39 films under the distribution agreement. The subsidiary has the right to distribute the films for 15 years from the initial theatrical release of the film. Under the terms of the distribution agreement, the subsidiary must fund a portion of the production cost and is responsible for all distribution and marketing expenses. As of March 31, 2005, 29 films have been released or funded by the subsidiary. The subsidiary s estimated commitment to fund the production of the remaining films under this agreement is 30,455 million yen.

The schedule of the aggregate amounts of year-by-year payment of purchase commitments during the next five years and thereafter is as follows:

Year Ending March 31,	Yen in millions
2006	145,111
2007	53,753
2008	16,412
2009	1,632
2010	712
Thereafter	23,109
Total	240,729

B. Loan Commitments

Subsidiaries in the Financial Services segment have entered into loan agreements with their customers in accordance with the condition of the contracts. As of March 31, 2005, the total unused portion of the line of credit extended under these contracts was 199,878 million yen.

At August 2004, Sony and Bertelsmann AG (Bertelsmann) combined their recorded music businesses in a joint venture. In connection with the establishment of the SONY BMG joint venture, Sony and Bertelsmann have entered into a 5 year Revolving Credit Agreement with the joint venture. Under the terms of the Credit Agreement, Sony and Bertelsmann have each agreed to provide one-half of the funding. The Credit Agreement, which matures on August 5, 2009, provides for a base commitment of $300 million and additional incremental borrowings of up to $150 million. As of March 31, 2005, the joint venture had no borrowings outstanding under the Credit Agreement. Accordingly, Sony s outstanding commitment under the Credit

Agreement as of March 31, 2005 was 24,075 million yen.

The aggregate amounts of future year-by-year payments for these loan commitments cannot be determined.

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SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(2) Contingent liabilities:

Sony had contingent liabilities including guarantees given in the ordinary course of business, which amounted to 26,049 million yen at March 31, 2005. The major components of the contingent liabilities are as follows:

Sony has issued loan guarantees to related parties comprised of affiliated companies accounted for under the equity method and unconsolidated subsidiaries. The terms of these guarantees are mainly within 1 year. Sony would be required to perform under these guarantees upon non-performance of the primary borrowers. The contingent liability related to these guarantees was 7,642 million yen and was not recorded on the consolidated balance sheet as of March 31, 2005.

The European Commission (EC) has issued the Waste Electrical and Electronic Equipment (WEEE) directive in February 2003. The WEEE directive will require electronics producers after August 2005 to be responsible for organizing a scheme, and possibly financing the cost, for collection, treatment, recovery and safe disposal of waste products. While the cost of this directive to Sony cannot be determined before regulation is adopted in individual member states, Sony continues to evaluate the impact of adopting this regulation.

Sony has agreed to indemnify certain third parties against tax losses resulting from transactions entered into in the normal course of business. The maximum amount of potential future payments under these guarantees cannot be estimated at this time. These guarantees were not recorded on the consolidated balance sheet as of March 31, 2005.

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

The changes in product warranty liability for the years ended March 31, 2004 and 2005 are as follows:

	Year Ended March 31,	
	2004	2005
	(Yen in millions)	
Balance at beginning of the fiscal year	51,892	50,670
Provision for warranty reserve	51,569	33,493
Settlements (in cash or in kind)	(46,971)	(40,358)
Changes in estimate for pre-existing warranty reserve	(2,970)	(751)
Translation adjustment	(2,850)	1,865
Balance at end of the fiscal year	50,670	44,919

24. *Business segment information*

Effective for the year ended March 31, 2005, Sony has partly changed its business segment configuration as described below.

As of August 1, 2004, Sony and Bertelsmann AG combined their recorded music businesses in a joint venture. In connection with the establishment of this joint venture, the non-Japan based disc manufacturing and physical distribution businesses, formerly included within the Music segment, have been reclassified to the Other category in the Electronics segment. Results for the year ended March 31, 2003 and 2004 in the Electronics and Music segments have been restated to conform to the presentation for the year ended March 31, 2005.

SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In July 2004, in order to establish a more efficient and coordinated semiconductor supply structure, the Sony group has integrated its semiconductor manufacturing business by transferring Sony Computer Entertainment s semiconductor manufacturing operation from the Game segment to the Electronics segment. As a result of this transfer, sales revenue and expenditures associated with this operation are now recorded within the Semiconductor category in the Electronics segment. The results for the year ended March 31, 2003 and 2004 have not been restated as such comparable figures cannot be practically obtained given that it was not operated as a separate line business within the Game segment. This integration of the semiconductor manufacturing businesses is a part of Sony s semiconductor strategy of utilizing semiconductor technologies and manufacturing equipment originally developed or designed for the Game segment within the Sony group as a whole.

The Electronics segment designs, develops, manufactures and distributes audio-visual, informational and communicative equipment, instruments and devices throughout the world. The Game segment designs, develops and sells PlayStation, PlayStation 2 and PlayStation Portable game consoles and related software mainly in Japan, the United States of America and Europe, and licenses to third party software developers. The Music segment is mainly engaged in the development, production, manufacture, and distribution of recorded music in all commercial formats and musical genres. As discussed above, due to the establishment of the joint venture with Bertelsmann AG, the results for the year ended March 31, 2005 only include the results of Sony Music Entertainment Inc. s (SMEI) recorded music business for the months of April through July 2004 and the results of SMEI s music publishing business and Sony Music Entertainment (Japan) Inc. (SMEJ) for the full fiscal year. Results for the year ended March 31, 2003 and 2004 in the Music segment include the consolidated results of SMEI s recorded music business for the full fiscal year, as well as the results of SMEI s publishing business and SMEJ for the full fiscal year. The Pictures segment develops, produces and manufactures image-based software, including film, video, and television mainly in the United States of America, and markets, distributes and broadcasts in the worldwide market. The Financial Services segment represents primarily individual life insurance and non-life insurance businesses in the Japanese market, leasing and credit financing businesses and bank business in Japan. The Other segment consists of various operating activities, primarily including a business focused on network service business including Internet-related services, an animation production and marketing business, an imported general merchandise retail business, an IC card business, and an advertising agency business in Japan. Sony s products and services are generally unique to a single operating segment.

The operating segments reported below are the segments of Sony for which separate financial information is available and for which operating profit or loss amounts are evaluated regularly by executive management in deciding how to allocate resources and in assessing performance.

SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Business segments -

Sales and operating revenue:

	Year Ended March 31		
	2003	2004	2005
	(Yen in millions)		
Sales and operating revenue:			
Electronics			
Customers	4,624,181	4,838,268	4,786,236
Intersegment	471,798	204,051	235,411
Total	5,095,979	5,042,319	5,021,647
Game			
Customers	936,274	753,732	702,524
Intersegment	18,757	26,488	27,230
Total	955,031	780,220	729,754
Music			
Customers	433,147	409,487	216,779
Intersegment	33,191	30,819	32,326
Total	466,338	440,306	249,105
Pictures			
Customers	802,770	756,370	733,677
Intersegment	0	0	0
Total	802,770	756,370	733,677
Financial Services			
Customers	509,398	565,752	537,715
Intersegment	27,878	27,792	22,842
Total	537,276	593,544	560,557
Other			
Customers	167,863	172,782	182,685
Intersegment	93,282	95,535	71,742
Total	261,145	268,317	254,427
Elimination	(644,906)	(384,685)	(389,551)
Consolidated total	7,473,633	7,496,391	7,159,616

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

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

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SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Segment profit or loss:

	Year Ended March 31		
	2003	2004	2005
	(Yen in millions)		
Operating income (loss):			
Electronics	65,939	(6,824)	(34,305)
Game	112,653	67,578	43,170
Music	(28,261)	(5,997)	8,783
Pictures	58,971	35,230	63,899
Financial Services	22,758	55,161	55,490
Other	(28,316)	(12,054)	(4,077)
Total	203,744	133,094	132,960
Elimination	15,065	13,226	13,530
Unallocated amounts:			
Corporate expenses	(33,369)	(47,418)	(32,571)
Consolidated operating income	185,440	98,902	113,919
Other income	157,528	122,290	97,623
Other expenses	(95,347)	(77,125)	(54,335)
Consolidated income before income taxes	247,621	144,067	157,207

Operating income is sales and operating revenue less costs and operating expenses.

In the quarter beginning October 1, 2003, the recognition method for insurance premiums received on certain products by Sony Life 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 year ended March 31, 2004 and 2005, by approximately 30.8 billion yen and 32.5 billion yen, respectively. This change did not have a material effect on operating income.

Assets:

	March 31		
	2003	2004	2005
	(Yen in millions)		
Total assets:			
Electronics	2,973,972	2,995,306	3,434,138
Game	673,208	684,226	482,037
Music	500,627	483,990	325,928
Pictures	868,395	856,517	863,056
Financial Services	2,897,119	3,475,039	3,885,517

Other	333,485	371,720	347,885
Total	8,246,806	8,866,798	9,338,561
Elimination	(266,167)	(319,204)	(439,489)
Corporate assets	389,906	543,068	600,028
Consolidated total	8,370,545	9,090,662	9,499,100

SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unallocated corporate assets consist primarily of cash and cash equivalents, securities investments and property, plant and equipment maintained for general corporate purposes.

Other significant items:

	Year Ended March 31		
	2003	2004	2005
	(Yen in millions)		
Depreciation and amortization:			
Electronics	203,433	210,888	275,701
Game	53,496	57,256	16,504
Music	20,008	16,123	9,451
Pictures	8,552	7,844	5,598
Financial Services, including deferred insurance acquisition costs	52,041	56,586	52,788
Other	10,157	13,455	8,564
Total	347,687	362,152	368,606
Corporate	4,238	4,117	4,259
Consolidated total	351,925	366,269	372,865
Capital expenditures for segment assets:			
Electronics	181,316	251,980	311,101
Game	40,986	100,360	18,824
Music	9,291	3,651	2,894
Pictures	7,138	6,013	5,808
Financial Services	3,655	4,618	3,845
Other	16,993	10,124	6,149
Total	259,379	376,746	348,621
Corporate	1,862	1,518	8,197
Consolidated total	261,241	378,264	356,818

The capital expenditures in the above table represent the additions to fixed assets of each segment.

The following table is a breakdown of Electronics sales and operating revenue to external customers by product category. The Electronics segment is managed as a single operating segment by Sony s management. Effective for the year ended March 31, 2005, Sony has partly changed its product category configuration. The main changes are that AIWA product group has been moved from Other to Audio or Video or Televisions , and the set-top box product group has been moved from Video to Televisions . Accordingly,

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SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

sales and operating revenue for the years ended March 31, 2003 and 2004 have been restated to conform to the presentation for the year ended March 31, 2005.

	Year Ended March 31		
	2003	2004	2005
	(Yen in millions)		
Audio	784,114	675,496	571,864
Video	828,308	949,261	1,034,736
Televisions	981,655	925,501	957,122
Information and Communications	836,724	834,757	778,374
Semiconductors	204,710	253,237	246,314
Components	527,782	623,799	619,477
Other	460,888	576,217	578,349
Total	4,624,181	4,838,268	4,786,236

Geographic information -

Sales and operating revenue which are attributed to countries based on location of customers for the years ended March 31, 2003, 2004 and 2005 and long-lived assets as of March 31, 2003, 2004 and 2005 are as follows:

	Year Ended March 31		
	2003	2004	2005
	(Yen in millions)		
Sales and operating revenue:			
Japan	2,093,880	2,220,747	2,100,793
U.S.A.	2,403,946	2,121,110	1,977,310
Europe	1,665,976	1,765,053	1,612,536
Other	1,309,831	1,389,481	1,468,977
Total	7,473,633	7,496,391	7,159,616

	March 31		
	2003	2004	2005
	(Yen in millions)		
Long-lived assets:			
Japan	1,365,160	1,430,443	1,414,632
U.S.A.	713,524	671,534	662,120
Europe	164,459	211,147	183,620

Other	148,616	133,640	144,896
Total	2,391,759	2,446,764	2,405,268

There are not any individually material countries with respect to the sales and operating revenue and long-lived assets included in Europe and Other areas.

Transfers between reportable business or geographic segments are made at arms-length prices.

There are no sales and operating revenue with a single major external customer for the years ended March 31, 2003, 2004 and 2005.

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SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following information shows sales and operating revenue and operating income by geographic origin for the years ended March 31, 2003, 2004 and 2005. In addition to the disclosure requirements under FAS No. 131, Sony discloses this supplemental information in accordance with disclosure requirements of the Japanese Securities and Exchange Law, to which Sony, as a Japanese public company, is subject.

	Year Ended March 31		
	2003	2004	2005
	(Yen in millions)		
Sales and operating revenue:			
Japan			
Customers	2,247,030	2,352,923	2,249,548
Intersegment	2,433,998	2,514,698	2,575,093
Total	4,681,028	4,867,621	4,824,641
U.S.A.			
Customers	2,632,176	2,341,304	2,166,323
Intersegment	189,502	198,450	235,362
Total	2,821,678	2,539,754	2,401,685
Europe			
Customers	1,520,930	1,647,694	1,524,182
Intersegment	121,598	66,950	52,417
Total	1,642,528	1,714,644	1,576,599
Other			
Customers	1,073,497	1,154,470	1,219,563
Intersegment	789,444	813,798	804,721
Total	1,862,941	1,968,268	2,024,284
Elimination	(3,534,542)	(3,593,896)	(3,667,593)
Consolidated total	7,473,633	7,496,391	7,159,616
Operating income:			
Japan	11,444	(69,875)	(765)
U.S.A.	98,762	85,290	72,414
Europe	62,206	78,822	12,186
Other	63,773	70,543	58,554
Corporate and elimination	(50,745)	(65,878)	(28,470)
Consolidated total	185,440	98,902	113,919

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SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS
SONY CORPORATION AND CONSOLIDATED SUBSIDIARIES

	Balance at beginning of period	Additions charged to costs and expenses	Deductions (Note 1)	Other (Note 2)	Balance at end of period
			(Yen in millions)		
Year ended March 31, 2003:					
Allowance for doubtful accounts and sales returns	120,826	87,330	(89,284)	(8,378)	110,494
Year ended March 31, 2004:					
Allowance for doubtful accounts and sales returns	110,494	78,323	(65,281)	(10,862)	112,674
Year ended March 31, 2005:					
Allowance for doubtful accounts and sales returns	112,674	56,863	(84,507)	2,679	87,709

Notes:

1. Amounts written off.

2. Translation adjustment.

	Balance at beginning of period	Additions	Deductions (Note 1)	Other (Note 2)	Balance at end of period
			(Yen in millions)		
Year ended March 31, 2003:					
Valuation allowance Deferred tax assets	252,208	72,303	(189,843)	(18,600)	116,068
Year ended March 31, 2004:					
Valuation allowance Deferred tax assets	116,068	63,936	(39,199)	(13,228)	127,577
Year ended March 31, 2005:					
Valuation allowance Deferred tax assets	127,577	67,889	(104,670)	(1,686)	89,110

Note:

1. Decrease resulting from the reversal of valuation allowances (see Note 20 of Notes to Consolidated Financial Statements) or utilization of deferred tax assets.

2. Translation adjustment.